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Board of Governors of the Federal Reserve System

66th Annual Report
1979

Board of Governors of the Federal Reserve System

I

Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, D.C., April 25, 1980

THE SPEAKER OF
THE HOUSE OF REPRESENTATIVES

Pursuant to the requirements of Section 10 of the Federal Reserve Act, I am pleased to submit the Sixty-Sixth Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during calendar year 1979.

Sincerely,

Paul A. Volcker, *Chairman*

II

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Part 1

Monetary Policy and the U.S. Economy in 1979

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Introduction

The U.S. economy expanded little in 1979, in a worsening inflationary environment. In real terms the gross national product increased only about 1 percent over the year, compared with nearly 5 percent during 1978; all major domestic sectors of the economy showed reduced rates of growth. Employment also increased less than in 1978, but growth in the labor force moderated, and the unemployment rate fluctuated within a narrow range throughout the year.

Acceleration of prices during 1979 reflected to a considerable extent the sharp increase in the prices of oil and other energy-related items. Food prices also rose substantially in the early part of the year. Even excluding energy and food, however, prices increased more rapidly last year than in 1978, as a decline in productivity resulted in a marked rise in unit labor costs.

The primary goals of monetary policy in 1979 were to curb inflationary expectations at home and to maintain the value of the dollar abroad without exacerbating recessionary tendencies. The policy of progressive restraint pursued by the Federal Reserve beginning in the spring contributed to slower growth in real economic activity, but inflationary pressures remained intense. Over the second and third quarters of the year, the monetary aggregates expanded at rates well above those specified by the Federal Open Market Committee and faster than was appropriate to the containment of inflation. Moreover, highly speculative activities emerged in commodities markets and the dollar came under increased pressure in foreign exchange markets. To counter these developments, the Federal Reserve on October 6 announced a set of actions, including new operating procedures, designed to provide greater assurance of control of the aggregates.

These measures, together with the relatively sluggish pace of economic expansion, brought a marked reduction in the fourth-quarter growth of both the monetary aggregates and the volume of credit made available to the economy as a whole. Most market rates of interest increased sharply immediately after October 6, and although some had receded from their highs by the end of the year with the moderation in money and credit demands, rates generally remained at near-record levels. On the other hand, the favorable initial effect of the policy actions on the exchange value of the dollar was later eroded as foreign interest rates increased further and as financial markets reacted to the uncertainties associated with developments in the Middle East.

At year-end, the short-term outlook for inflation remained bleak. Inflationary pressures seem likely to continue intense, not only because of the further boost in oil prices but also because past increases in costs and prices will still be working their way through the economy. In these circumstances, the urgent task of policy is to make sure that inflation is not exacerbated by the development of excessive demands on the economy or by unrealistic expectations as to the future strength of markets.

The Economy in 1979

The pace of real economic activity slowed considerably during 1979—the fifth year of the current expansion—while inflation intensified. Over the four quarters of the year, GNP rose about 1 percent in real terms after an increase of nearly 5 percent during the previous year; industrial production also rose only about 1 percent after advancing 7½ percent during 1978.[1] The slowdown in activity was largely in response to the 75 percent increase in the price of imported oil during 1979 as well as to the relatively restrictive fiscal and monetary policies instituted to damp inflationary pressures. In addition, severe winter weather, major strikes, and fuel shortages disrupted activity in the first half of the year.

The sluggishness of economic activity during 1979 was evident in all major domestic sectors of the economy. Real consumer expenditures increased only moderately over the year, housing starts fell sharply—especially toward year-end—as a consequence of tightened financial conditions, and the rise in business fixed investment slowed. Growth in total government purchases of goods and services also moderated as a pickup of federal purchases was largely offset by a reduction in outlays by state and local governments, reflecting in part public sentiment to contain taxes and spending.

The acceleration in overall inflation in 1979 was due in large part to the dramatic rise in the prices of imported crude oil and other energy items. In addition, while wage gains in the private nonfarm sector during 1979 moderated somewhat from those of the previous year, productivity declined and the rise in unit labor costs accelerated, putting further upward pressure on prices. The gross domestic business product fixed-weight price index, a broad measure of inflation, rose about 10 percent, 1¼ percentage points more than the rate during 1978; the consumer price index (CPI) increased about 13 percent over the four quarters of 1979 compared with 9 percent in the previous year. A sharp advance in homeownership costs contributed significantly to the rapid rise in the CPI. Inflationary pressures are likely to remain intense during 1980 as wages move up rapidly in response to recent increases in the cost of living, and prices continue adjusting to higher unit labor costs and to additional increases in the price of oil, both imported and domestically produced.

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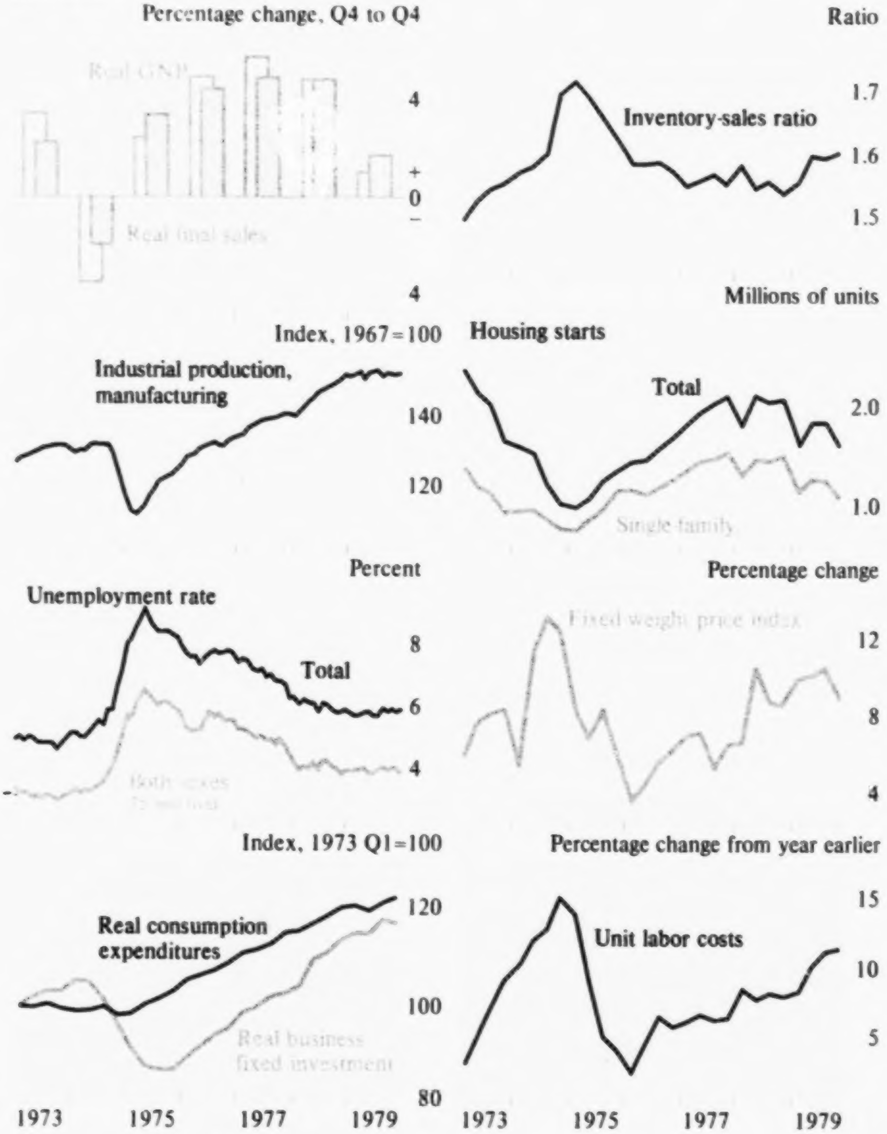
[1] Unless otherwise indicated, annual figures represent changes from the fourth quarter of 1978 to the fourth quarter of 1979.

Indicators of Economic Performance



All data are seasonally adjusted at annual rates.

The industrial production index (monthly data) is Federal Reserve data; the unemployment rate (monthly data) and the change in nonfarm unit labor costs are U.S. Department of Labor data. All other data are from the U.S. Department of Commerce.

Real GNP and real final sales are in terms of 1972 dollars.

The fixed-weight price index (1972 weights) is for gross domestic business product. The annual rate of change is calculated from the previous quarter.

The inventory-sales ratio is based on real (1972 dollars) manufacturing and total trade sales and inventories.

HOUSEHOLD SECTOR

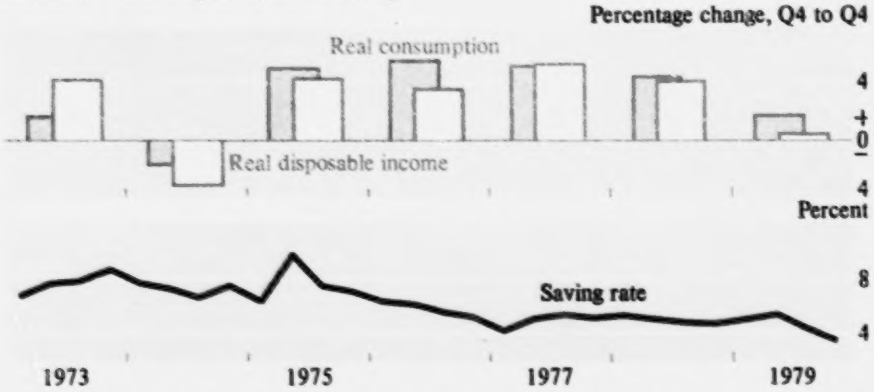
Much of the slower growth of real GNP over 1979 was due to the reduced pace of household spending. Consumer outlays in real terms increased 1¾ percent during 1979, following a 4½ percent rise the previous year. All of the 1979 gain was recorded in the second half when the saving rate fell sharply—from 5¼ percent in the first half to 3½ percent by the fourth quarter, the first time since the Korean War that the rate was below 4 percent. The reduced growth of real consumer outlays over the year reflected in large measure the leveling off in real disposable income as growth of nominal personal income slowed and inflation accelerated. Moreover, tax burdens on households were boosted last year as an income tax cut at the start of the year was more than offset by inflation-induced increases in income tax payments and legislated increases in personal contributions for social insurance.

Consumer spending was unusually depressed in the second quarter, when gasoline shortages resulted in a sharp falloff in new-car purchases. During the summer, however, outlays for automobiles rebounded as consumers responded to company-sponsored sales incentive programs and to the increased availability of gasoline. Nevertheless, some of these purchases apparently represented a borrowing from future periods, and auto sales weakened in the fourth quarter to an annual rate of 9.8 million units, down 1.3 million from the year-earlier pace. The drop in sales was centered in domestic larger-size cars; sales of foreign cars, which are generally small and therefore more fuel efficient, rose 500,000 units over the year to an annual rate of 2.4 million units.

Real residential construction expenditures declined about 7 percent during 1979 after having remained nearly flat in the previous year. Total private housing starts averaged 1.8 million units at an annual rate during the first three quarters of 1979, following a pace of 2.1 million units in the final quarter of 1978. The decline reflected primarily the tightening in financial markets, which slowed the growth of deposits at thrift institutions and raised mortgage interest rates and monthly carrying costs. After the Federal Reserve's policy actions on October 6, starts fell again, averaging 1.5 million units in the last two months of the year. The renewed decline reflected a further sharp rise in mortgage rates and reduced availability of new financing, most notably in states with usury ceilings that were below market rates.

The moderation in housing activity over the course of 1979 was most pronounced in the single-family sector, in which starts fell more than 25

Income, Consumption, and Saving



Based on U.S. Department of Commerce data, seasonally adjusted at annual rates. Real consumption and real disposable income are in terms of 1972 dollars.

percent. Starts of multifamily units were reduced 9 percent during 1979. Rental units built under the section 8 subsidy program administered by the Department of Housing and Urban Development made up almost one-fourth of all multifamily starts, about the same proportion as in 1978.

BUSINESS SECTOR

Business fixed investment rose 3 percent in real terms during 1979, considerably less than during the previous two years, as fundamental determinants of capital spending weakened. Growth of final sales slowed considerably, and the capacity utilization rate in manufacturing moved downward after the first quarter. In addition, nominal financing costs rose throughout most of the year, growth of corporate economic profits was generally weak, and the business sector came under increasing financial pressures.

For the second consecutive year, growth in real outlays for nonresidential structures, which generally have long lead times, exceeded those for producers' durable equipment—a typical occurrence late in an economic expansion. Investment in equipment was little changed during 1979 after an 8 percent advance in the preceding year. Outlays for nonresidential structures were up 8 percent, compared with 16 percent during 1978; most of the growth was in spending for commercial and industrial buildings.

The increase in plant and equipment spending was concentrated in durable goods manufacturing, notably producers of machinery and aircraft. In the nondurable goods sector, producers of paper and chemicals showed the largest spending gains. Growth of outlays by materials manufacturers as a group was moderate despite the brisk pace of spending by the primary metals industry. Outside of the manufacturing sector, slower growth of investment spending by communications firms and public utilities was offset by gains in transportation industries.

Advance indicators of capital spending suggest that growth of real business fixed investment may be relatively well maintained into the first part of 1980 but may slacken thereafter. New orders for nondefense capital goods, which recovered in the fourth quarter of 1979 after having shown signs of weakness earlier in the year, imply some growth of outlays in the months ahead. However, surveys of business investment intentions indicate little, if any, real growth of capital spending in 1980.

In general, inventories were held under tight control in 1979. Total business inventory investment in constant dollars rose rapidly in the second quarter; but this increase, the largest since the end of 1973, was due mainly to energy-related disruptions in final sales. Thereafter, inventory investment slowed markedly as excessive stocks at auto dealers were drawn down, overall final sales picked up, and industrial production remained virtually unchanged. Thus the real inventory-to-sales ratio for all manufacturing and trade industries rose during the first half of the year, and then remained about unchanged during the second half.

Increases in manufacturing inventories, which were at a fairly substantial rate throughout the year, were concentrated among producers of machinery, transportation equipment, and primary metals. Inventory investment in the trade sector was dominated by sizable swings in dealers' automobile stocks. Throughout the spring, dealers' supplies of automobiles, especially of large cars, increased as consumers reacted adversely to gasoline shortages and price increases, while production was maintained at a relatively high rate. Subsequent production adjustments, coupled with sales rebates and other promotional campaigns that temporarily boosted sales, resulted in a substantial reduction in dealers' stocks for most lines of cars. In the fourth quarter, qualitative reports suggested that because of increased carrying costs many businesses were redoubling efforts to maintain a cautious inventory posture.

GOVERNMENT SECTOR

Real purchases of goods and services by governments rose fractionally in 1979 after having increased more than 1½ percent during the previous year. Real federal purchases of goods and services advanced about 1½ percent while purchases by states and localities declined slightly.

For the calendar year 1979, the federal government budget deficit on a national income accounts basis fell to around $11 billion, after a $28 billion deficit the previous year. Revenues were bolstered by a sharp increase in personal income tax receipts as inflation pushed up nominal incomes and by a sizable increase in social security taxes. The increase in real federal government purchases was mostly in the defense area. Growth of grants to state and local governments slowed during 1979 with the expiration of countercyclical revenue sharing in late 1978 and the phasing out of local public works and employment programs. In contrast, federal transfer payments registered a considerable increase owing in part to a large midyear cost-of-living increase for social security recipients. Interest payments also rose sharply over the year.

At the state and local level, governmental units showed an operational deficit (total deficit net of social insurance contributions) following three years of surplus. Growth of both outlays and revenues slowed, reflecting in part public sentiment to limit spending at both the national and the local level. Real purchases of goods and services decreased ¼ percent during 1979; the reduction was accomplished primarily through reduced construction outlays. State and local payroll employment increased about 200,000, or 1½ percent, over the 12 months of 1979, about the same as in the previous year. The growth of total revenues was curtailed because of the slower growth of federal grants, which make up about a quarter of total receipts. On balance, all other receipts increased last year at about the same rate as in 1978.

LABOR MARKET DEVELOPMENTS

The slowing of economic activity in 1979 was accompanied by a moderation in the demand for labor. Over the year, total employment rose 2 percent, just one-half the gain during 1978. The slowdown in employment growth mainly reflected a weakness in manufacturing employment, especially in the motor vehicle and steel industries. At year-end, about 130,000 auto workers were on indefinite layoff. Despite the slowing in housing activity, the number of jobs in contract construction expanded considerably during the year as strength in nonresidential construction more than offset reduced hiring in homebuilding. In the private service-producing sector, employment gains were well maintained in 1979.

The easing of labor demand was accompanied by a reduction in the growth of the labor force in 1979. As a result, the overall unemployment rate remained remarkably stable, fluctuating in the narrow range of 5.7 to

5.9 percent; jobless rates for most demographic groups were little changed over the year. In the second half of 1979, unemployment rates for blue-collar workers increased somewhat, probably reflecting layoffs by automobile producers, while unemployment rates in other occupational groups edged down.

As often occurs during a period of sluggish economic activity, the moderation in employment growth last year was not as great as the deceleration in output, and productivity deteriorated. During 1979, output per hour in the nonfarm business sector declined 2 percent, after increasing 1 percent the previous year. The cyclical decline in productivity in 1979 reinforced a longer-term slowdown in the trend rate of growth of productivity that had been in evidence throughout the decade.

The rate of increase in wage rates moderated slightly during 1979. In the private nonfarm sector, wage rates rose 8 percent over the four quarters of 1979, compared with about 8½ percent in the preceding year. Increases were above average in manufacturing, in which cost-of-living protection is more widespread, and in transportation, in which a large labor contract settlement was negotiated. Hourly compensation, which includes employer contributions for social insurance and the cost of fringe benefits in addition to wages, rose 9 percent during 1979, about the same as in the previous year. This absence of an acceleration of compensation, despite rapidly rising prices, may have reflected the slower growth of activity and employment as well as the influence of the administration's voluntary pay standard, which called for a 7 percent annual ceiling for wages and private fringe benefits.

With the growth of hourly compensation nearly unchanged last year, the decline in productivity resulted in an acceleration in the rise of unit labor costs for the nonfarm business sector from a rate of 8 percent during 1978 to more than 11 percent during 1979. Prospects for significantly slower growth of labor costs in 1980 remain poor because of the upward pressure of past price increases on wages, the heavy collective bargaining calendar, and further scheduled boosts in the federal minimum wage and in payroll taxes.

PRICES

The fixed-weight price index for gross domestic business product rose 10 percent over the four quarters of 1979. Other inflation indicators increased even faster; both the CPI and the producer price index (PPI) for finished goods rose around 13 percent last year.

During 1979 increases in energy prices far exceeded most other price advances and were responsible for about two-thirds of the acceleration in the CPI. At the end of 1978, the Organization of Petroleum Exporting Countries (OPEC) announced the first in a series of price hikes that continued throughout the past year. In addition, as political unrest intensified in Iran, spot market prices for crude oil increased sharply, and individual oil-producing nations frequently were able to charge prices well above the OPEC base price. As a result, the price of imported petroleum in the United States rose about 75 percent during the year. This surge in world oil prices put considerable upward pressure on the prices of uncontrolled domestic crude oil. Furthermore, on June 1, a phaseout of domestic crude oil price controls began. As a consequence, by the end of 1979, the PPI for domestically produced crude was about 50 percent above its level in December 1978.

Price pressures in crude oil markets influenced markets for petroleum products. Retail gasoline prices rose about 50 percent over the year, and fuel oil prices increased nearly 60 percent. In addition, prices of a wide variety of oil-based industrial materials and products rose markedly: prices of industrial chemicals climbed more than 25 percent over the year, following near stability in 1977 and 1978, and large increases were posted for plastics. The inflationary pressures generated by the 1979 rise in energy prices are expected to extend into 1980 because of the passthrough of higher costs of fuel and materials. Moreover, further large increases were announced by oil-producing nations in December 1979 which, in conjunction with domestic decontrol, will boost energy prices in 1980.

In contrast to energy prices, food prices rose less rapidly during 1979 than in the previous year despite a surge early in the year. Consumer food prices rose 10 percent during 1979, after an 11½ percent increase in 1978. While beef remained in relatively short supply in 1979, greater availability of other meats and poultry contributed to some easing of food prices during the summer.

Even when food and energy items are excluded, prices increased more rapidly in 1979 than in 1978. For example, the personal consumption expenditure component of the gross business product price index, excluding food and energy, rose 7¾ percent, compared with 7 percent during the previous year. The acceleration in the CPI excluding food and energy was even greater than that for the comparable personal consumption expenditure measure, mainly because of conceptual differences in the treatment of homeownership costs. Moreover, prices for capital equipment and nonresidential structures also accelerated.

Price movements in commodity markets were quite volatile during much of the year. Prices of copper and other nonferrous metals rose rapidly at the beginning of the year and again in September. After subsiding somewhat early in the fall, pressures on gold and silver reappeared, and by the end of the year, prices of these metals had reached exceptionally high levels.

Monetary Policy and Financial Markets

Monetary policy in 1979 sought to curb inflationary pressures and to maintain the stability of the dollar on international markets, against a backdrop of widespread concern about possible recessionary tendencies in the economy. Early in the year, when growth in the monetary aggregates was very weak and incoming economic data provided some indications of softening in economic activity, the Federal Reserve avoided measures that would have led to a marked rise in interest rates or would have severely reduced the availability of credit. But expenditures for goods and services strengthened as the year progressed, in part because of heightened inflationary expectations. In the spring, moreover, accelerating growth in the monetary aggregates threatened to intensify inflationary pressures, and in early summer the dollar came under renewed pressures in foreign exchange markets. Consequently, the System adopted a progressively less accommodative stance, allowing the federal funds rate to rise and increasing the discount rate in several steps.

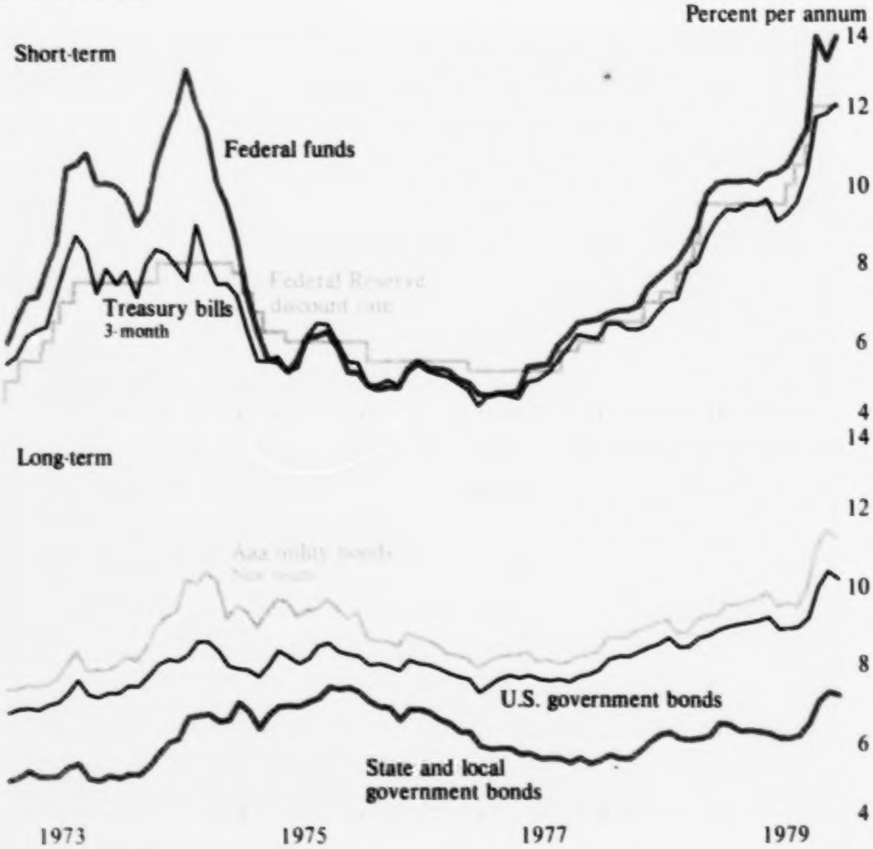
These actions were accompanied by increases of 1¼ percentage points in short-term interest rates and ½ percentage point in long-term rates over the third quarter, but even so money and credit continued to expand briskly. Moreover, prospects of continued high inflation touched off a surge of speculative activities in financial, foreign exchange, and commodity markets. Responding to these developments, the Federal Reserve on October 6 announced further actions, including a change in day-to-day procedures for conducting open market operations to place more emphasis on controlling reserves. In the weeks immediately thereafter, interest rates in all markets rose sharply, and despite some subsequent decline, they remained at near-record levels as the year ended. Interest rates on short-term instruments were 2½ to 3 percentage points higher in December than 12 months earlier; long-term rates were up about 1 to 2 percentage points.

As financial markets tightened in the fourth quarter, credit flows slowed. Net funds raised by private domestic nonfinancial sectors dropped approximately 18 percent below the average pace in the first nine months of the year, reflecting a sharp falloff in business borrowing at commercial banks and reduced borrowing by households. Monetary expansion also slowed, bringing all of the monetary aggregates either within or near the growth ranges that the FOMC had established for the period from the fourth quarter of 1978 to the fourth quarter of 1979.

MONETARY AGGREGATES AND INTEREST RATES

Early in the year the Federal Reserve set ranges for growth in the monetary aggregates that were thought to be consistent with its objectives of moderating economic growth and restraining inflation. Over the targeted period, the last quarter of 1978 to the last quarter of 1979, growth in the narrow and broadest aggregates, M-1 and M-3, was within the established ranges, while M-2 was above the upper end of its range.

Interest Rates



Monthly averages except for conventional mortgages, which are based on quotations for one day each month. Yields: U.S. Treasury bills, market yields; prime commercial paper, dealer offering rates; conventional mortgages, rates on first mortgages in primary markets, unweighted and rounded to nearest 5 basis points, from U.S. Department of Housing and Urban Development; Aaa utility bonds, weighted averages of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to a Aaa basis; U.S. government bonds, market yields adjusted to 20-year constant maturity by U.S. Treasury; state and local government bonds (20 issues, mixed quality), *Bond Buyer*.

Changes in Selected Monetary Aggregates[1]

Annual rates of change based on seasonally adjusted data, percent

Item	1977	1978	1979	1978	1979			
				Q4	Q1	Q2	Q3	Q4
Member bank reserves[2]								
Total	5.3	6.7	2.8	2.4	−3.0	−5.0	6.3	13.1
Nonborrowed	3.1	6.8	.8	4.7	−3.4	−8.8	8.2	7.5
Concepts of money[3]								
M-1	7.9	7.2	5.5	4.3	−1.3	8.1	9.7	5.0
M-2	9.8	8.7	8.3	8.5	2.8	8.8	11.9	8.9
M-3	11.7	9.5	8.1	9.8	5.3	8.0	10.5	7.8
Time and savings deposits at commercial banks (excluding large negotiable CDs)	11.2	9.7	10.4	11.5	5.8	9.3	13.3	11.5
Savings	11.1	1.8	−5.8	−1.2	−11.8	−3.5	5.8	−13.8
Other time	11.4	16.7	22.8	21.9	19.3	18.4	18.5	28.1
Deposits at thrift institutions[4]	14.5	10.6	7.8	11.6	8.8	6.8	8.4	6.3
MEMO (change in billions of dollars, seasonally adjusted)								
Managed liabilities	27.4	68.4	50.4	19.8	20.8	3.8	13.0	12.8
Large time deposits	18.8	45.3	9.1	12.3	11.7	−13.8	−2.7	13.9
Nondeposit funds[5]	8.6	23.1	41.3	7.5	9.1	17.6	15.7	−1.1

[1] Changes are calculated from the average amounts outstanding in each quarter; yearly rate calculations are based on fourth-quarter data.

[2] Annual rates of change in reserve measures have been adjusted for changes in reserve requirements.

[3] M-1 is currency plus private demand deposits adjusted. M-2 is M-1 plus bank time and savings deposits other than large negotiable CDs. M-3 is M-2 plus deposits at mutual savings banks and savings and loan associations and credit union shares.

[4] Savings and loan associations, mutual savings banks, and credit unions.

[5] Includes borrowings by banks from other than commercial banks in the form of federal funds purchased and securities sold under agreements to repurchase, plus other liabilities for borrowed money, loans sold to affiliates, loan repurchase agreements, and net due to foreign related institutions.

The monetary aggregates exhibited considerable weakness in the first quarter of 1979—indeed, M-1 declined. M-1 was depressed by shifts from demand deposits into savings accounts accessed by automatic transfer services (ATS) and into negotiable order of withdrawal (NOW) accounts in New York State (both introduced on November 1, 1978). Such transfers are estimated to have reduced growth in M-1 in the first quarter by about 2¾ percentage points. The pronounced weakness in the public's demand for M-1 probably reflected other factors as well, including the slower pace of economic growth and the previous runup of short-term interest rates to cyclically high levels. These high rates apparently stimulated the unusually intensive efforts, particularly by households and small businesses, to economize on non-interest-bearing deposits.

In addition to declines in demand deposits during the first quarter, there were substantial outflows from savings deposits and small-denomination time deposits subject to fixed interest rate ceilings. Net issuance of six-month money market certificates (MMCs) by commercial banks, on the other hand, accelerated to high levels, and the interest-bearing component of M-2 continued to grow, though at a slower pace than during the preceding quarter. Deposit growth at thrift institutions, which was accounted for entirely by MMCs, also slowed in the first quarter but remained above that at banks, and M-3 decelerated somewhat less than M-2. In addition to a large increase in net issuance of MMCs, banks expanded their use of managed liabilities, which include large-denomination time deposits not subject to interest rate ceilings and various nondeposit funds.

The weakness of the monetary aggregates early in the year left their growth below the long-run ranges set by the FOMC. However, because of the strength of the economy at the end of 1978 and the persistence of inflation, the Federal Reserve maintained a firm posture that left short-term rates about unchanged over the first quarter. Long-term rates moved up somewhat, perhaps in reflection of growing pessimism regarding prospects for inflation.

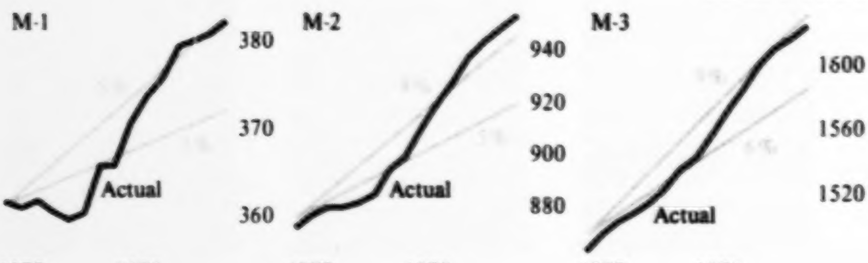
Growth in M-1 rebounded sharply during the second quarter, to an annual rate of 8 percent, even as growth of nominal spending moderated. This pickup marked a return to growth rates more consistent with the historical relationship of money to nominal income and expenditures, evidently reflecting an abatement of the unusual economizing by the public as well as a diminished pace of ATS and NOW transfers. As a result, by June the level of M-1 had risen well into the long-run growth range established by the FOMC.

M-2 also moved into its growth range during the second quarter. The interest-bearing component of M-2 expanded at an annual rate of 9¼ percent, as inflows of time deposits not subject to fixed interest rate ceilings accelerated and outflows of savings and other small time deposits slowed. In part, the acceleration of the time deposit component of M-2 was attributable to a regulatory change in the spring that eliminated (when Treasury bill rates are above 9 percent) the ceiling rate advantage of ¼ percentage point permitted to thrift institutions when issuing MMCs. (This change, effective March 15, also prohibited compounding of MMC interest. These provisions were intended to reduce pressures on earnings of thrift institutions by lowering the cost of MMCs and to moderate the flow of funds to depositary institutions in efforts to restrain inflation.) The correlative impact of this regulatory change was a weakening of inflows at thrift institutions in the second quarter. As a result, M-3 accelerated less than M-2. As other deposit flows slowed, thrift institutions increased their use of large certificates of deposit (CDs) and, to a lesser extent, their issuance of commercial paper and mortgage-backed bonds.

Confronted with the strengthening of the monetary aggregates and recognizing the underlying momentum of inflation, the System maintained restraint in the provision of reserves to the banking system. The federal funds rate rose somewhat over the second quarter, but other short-term rates generally tended to fall, apparently reflecting expectations by market participants that economic activity was weakening and that monetary policy might ease in the near future. Long-term rates also declined on balance, after reaching cyclical peaks earlier in the second quarter. By the end of the quarter, short-term rates had declined about 25 to 50 basis points and long-term rates about 10 basis points.

The monetary aggregates continued to accelerate in the third quarter. M-1 expanded at a record annual rate of 9¾ percent, reflecting in part a pickup in economic activity. Growth in M-2 increased even more sharply, as issuance of MMCs and other time deposits paying market rates remained strong, and outflows from deposits subject to fixed interest rate ceilings ceased. In part, this latter development may have reflected regulatory changes effective on July 1 that raised ceiling rates on passbook savings accounts ¼ percentage point, removed minimum denominations on consumer-type time deposits (except for MMCs), and established a new four-year deposit with a floating rate ceiling based on the yield for four-year government securities. The purpose of these changes was to aid small savers in obtaining higher rates of return on their deposits. The four-year certificate, however, attracted a relatively small volume of new deposits

Monetary Aggregates and Long-Run Growth Ranges



Long-run ranges are calculated from the fourth quarter of 1978 to the fourth quarter of 1979. The ranges for M-1 were raised from 1½ to 4½ percent as shifts from demand deposits into ATS and NOW accounts over the year were about one-half as large as had been projected in February.

during the year, as its ceiling rate remained below yields on competitive market instruments.

The more rapid growth in the aggregates in the third quarter brought M-1 near, and M-2 above, the upper end of its long-run growth range. The Federal Reserve responded to this development and to continuing inflationary pressures and weakness in the dollar by allowing the federal funds rate to increase about 1¼ percentage points from June to September. In addition, the discount rate was raised three times, for a cumulative increase of 1½ percentage points. Private short-term rates increased somewhat more than the funds rate over the quarter. Long-term rates rose about ½ percentage point, and by the end of the quarter were at or above cyclical highs reached in the second quarter.

As the third quarter ended, expansion of the monetary aggregates continued at a fast pace and the value of the dollar on foreign exchange markets came under strong downward pressure. Moreover, a spreading speculative boom in commodity markets seemed to be developing. It was against this background that the Federal Reserve announced on October 6 a set of actions designed to damp speculative developments in financial, foreign exchange, and commodity markets and to moderate growth in the monetary aggregates. One element of the package was an increase of 1 percentage point in the discount rate, to 12 percent. In addition, it was indicated that the System's day-to-day operating procedures would be altered in a way expected to make the achievement of growth targets for the monetary aggregates more certain. Specifically, policy would be conducted with greater emphasis on supplying reserves to member banks at a rate believed consistent with growth objectives for the monetary aggregates; and less attention would be focused on short-term interest rates as a guide for open market operations. Previously, open market operations had been directed at maintenance of the federal funds rate in a relatively narrow range thought to be consistent with achievement of monetary growth objectives. It was felt that this procedure had become less reliable in an environment of rapid and variable inflation.

The third element of the policy package announced on October 6 was the imposition of a marginal reserve requirement of 8 percent at large banks on net increases above a base-period level in certain liabilities: CDs issued in denominations of $100,000 or more with maturities of less than one year, Eurodollar borrowings, security repurchase agreements, and federal funds borrowings from nonmember institutions. These requirements applied to member banks that had $100 million or more in such liabilities and were imposed as well on U.S. branches and agencies of foreign banks whose foreign parents have worldwide banking assets in excess of $1 billion. As in the previous year, a substantial part of the rapid expansion in bank credit in 1979 had been financed with managed liabilities. Moreover, the increase in managed liabilities in the first three quarters of 1979 had been, on balance, entirely in the form of nondeposit funds, which had been exempt from reserve requirements until October 6.

In the three weeks following the early October announcement, interest rates rose very rapidly, exhibiting great day-to-day volatility as the markets adjusted to the System's new operating procedures. The federal funds rate climbed about 3¾ percentage points and other short-term rates somewhat less. Medium- and longer-term rates rose between 1 and 1½ percentage points. By late October or early November, upward pressures on rates began to ease, as credit demands were reduced significantly and expansion of the monetary aggregates slowed. The prime lending rate charged by commercial banks reached 15¾ percent in November, but was lowered to 15¼ percent in December.

M-1 expanded at a rate of 5 percent in the fourth quarter, while growth in M-2 slowed more gradually, to a rate near 9 percent, as its interest-bearing component continued to expand at just below the third-quarter pace. Outflows from savings deposits, which had been evident in the first half, recommenced and reached record rates in the fourth quarter. This evidently reflected in part a shift into MMCs, which grew $27 billion during the quarter.

During 1979 MMCs outstanding at banks rose $80 billion and at the end of the year accounted for 23 percent of savings and small-denomination time deposits, up from about 6 percent as the year began. At thrift institutions, net issuance was $110 billion and accounted for all deposit growth; by year-end MMCs had reached 26 percent of all thrift deposits. Households at the same time acquired a large volume of other liquid assets bearing market yields. Most notably, shares outstanding in money market mutual funds grew $34½ billion in 1979, compared with $6¾ billion for 1978. Several billion dollars of short-term unit investment trusts also were sold, and individuals acquired a sizable volume of Treasury securities through noncompetitive tenders in bill and note auctions.

AGGREGATE FLOWS OF FUNDS

Net credit flows to nonfinancial sectors of the U.S. economy totaled approximately $395 billion in 1979, slightly below the pace of financing in 1978. In the first half of the year, slower credit flows were attributable

Net Funds Raised and Supplied in Credit and Equity Markets

Billions of dollars

Sector	1976	1977	1978	1979^p	1979[1]		
					H1	Q3	Q4^p
NET FUNDS RAISED							
Total, all sectors	296	393	482	482	472	548	434
U.S. government	69	57	54	37	27	40	55
State and local government	15	20	24	18	14	21	22
Foreign	21	14	32	23	17	60	−2
Private domestic nonfinancial	166	248	291	316	326	340	273
Business	76	108	128	156	158	181	126
Household	90	140	163	160	168	159	147
Domestic financial	24	54	81	87	88	87	86
Private intermediaries	5	28	40	35	42	35	20
Sponsored credit agencies	3	6	23	25	22	19	36
Mortgage pool securities	16	20	18	28	24	34	29
NET FUNDS SUPPLIED							
Total, all sectors	296	392	482	482	472	548	434
U.S. government	9	12	20	23	24	22	21
State and local government	8	14	15	15	9	15	27
Foreign	18	42	40	−6	−27	37	−6
Private domestic nonfinancial	29	26	51	70	81	44	73
Business	9	−4	−1	18	7	24	34
Household	20	30	52	52	74	20	39
Domestic financial	232	297	355	379	384	430	316
Private intermediaries	202	264	304	314	335	350	235
Commercial banks	60	88	129	121	130	174	47
Thrift institutions	71	82	76	54	58	63	39
Insurance and pension funds	64	78	83	97	96	90	106
Other[2]	7	16	16	42	51	23	43
Sponsored credit agencies	5	6	26	29	26	26	40
Mortgage pool securities	16	20	18	28	24	34	29
Federal Reserve System	9	7	7	8	−1	20	12

1. Seasonally adjusted annual rates.

2. Includes finance companies, money market funds, real estate investment trusts, open-end investment companies, and security brokers and dealers.

^{p} Data for the fourth quarter of 1979 are preliminary estimates.

largely to reduced credit demands by federal and state and local governments and by foreign borrowers. Credit demands of private nonfinancial sectors remained strong through the third quarter; but firmer conditions in financial markets and somewhat slower growth in nominal expenditures curtailed growth in such credit demands late in the year. Both households and businesses sharply reduced their borrowing in the fourth quarter, with a substantial falloff in funds flowing to these sectors in the period following the October 6 actions of the Federal Reserve.

The U.S. government greatly reduced the volume of funds it raised in credit markets in 1979, owing primarily to a substantial decrease in the size of the federal deficit from the previous year and, in the first half, to the availability of large cash balances carried over from year-end 1978. For the year net Treasury borrowing amounted to about $37 billion, compared with $54 billion in 1978. Households acquired a substantial share of the increase in government securities outstanding. In contrast, as the dollar strengthened in international exchange markets in the first half, foreign central banks redeemed an appreciable volume of Treasury securities, most of which had been acquired in late 1978 with the proceeds of dollar-support operations. Although foreign account managers did acquire Treasury securities in the third quarter—when the value of the dollar once again came under pressure on foreign exchanges—these purchases were substantially less than the redemptions of the first two quarters and were followed by further net redemptions in the fourth quarter.

Almost all the Treasury's net financing needs in 1979 were met by sales of marketable securities. The Treasury continued its practice of recent years of concentrating its marketable borrowings in coupon issues in order to lengthen the maturity structure of its debt. However, issuance of Treasury bills was increased considerably in the final three months of the year.

Net funds raised by state and local governments fell to around $18 billion in 1979, only two-thirds of the 1978 volume. Most of the decline reflected the diminution of advance-refunding issues after September 1, 1978, the effective date of Internal Revenue Service regulations that reduced the attractiveness of these operations. The volume of new capital financing by state and local governments increased in 1979, bolstered by revenue bonds issued to finance housing. Most of these housing-related bonds were for the purpose of funding single-family mortgages at below-market rates of interest. When congressional legislation was introduced in April to curtail the use of tax-exempt instruments for this purpose, the issuance of these bonds slowed sharply; however, volume picked up again in the second half when it appeared that the final legislation would not apply to issues that had been postponed earlier.

The reduced aggregate supply of tax-exempt issues, along with continued strong demands by casualty insurance companies and commercial banks, contributed to a moderate reduction in average yields on municipal bonds through the first nine months of 1979. Although average yields on tax-exempt bonds rose about 50 basis points following the policy actions in October, they remained unusually low relative to yields on taxable bonds.

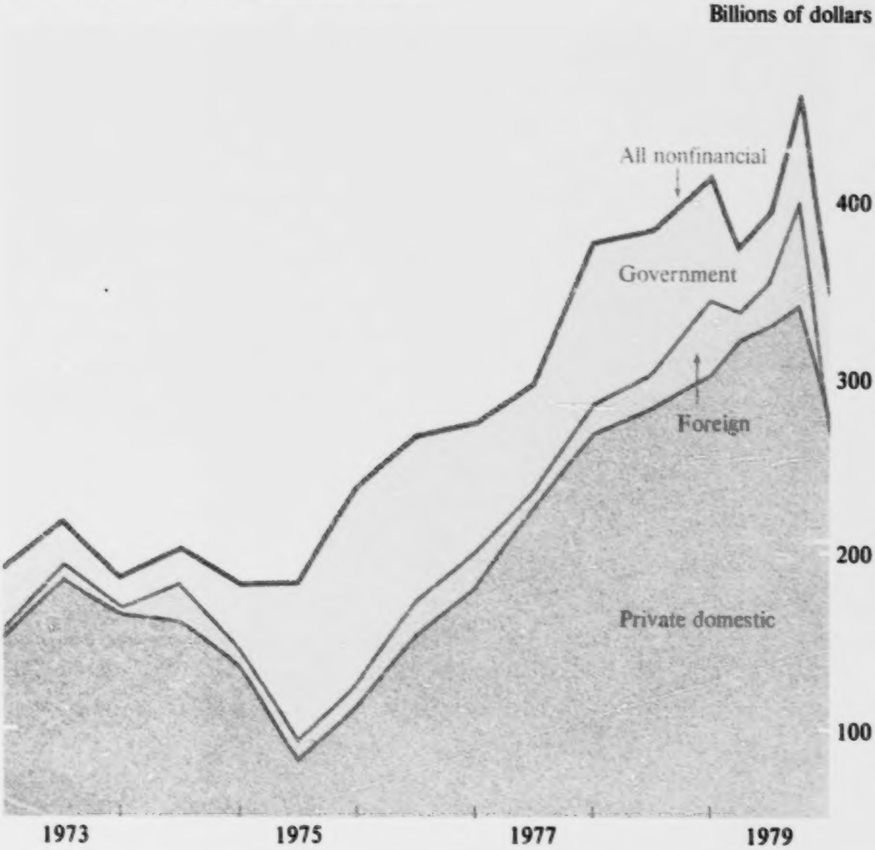
The household sector reduced its borrowing in 1979 from the record levels of the previous year. Growth in consumer installment credit dropped from peak rates in mid-1978 largely in response to slower growth in consumer spending, particularly for durable goods. Severe weather early in the year, gasoline price and supply developments with associated declines in auto sales, and the erosion of real disposable income by inflation slowed the pace of debt-financed consumer expenditures. In addition, the higher rates on consumer loans and a general tightening in nonrate terms of lending appear to have curtailed installment credit flows late in the year.

Flows of home mortgage funds, which form the major share of household net borrowing, moderated in late 1979 from their 1978 peak. Reduced deposit flows at savings and loan associations and mutual savings banks, coupled with concerns about liquidity, acted to constrain mortgage lending by these institutions. Mortgage lending by commercial banks also dropped slightly in 1979, after sharp acceleration in the previous two years. For the year as a whole, the reduced supply of mortgage funds from the depositary institutions was largely offset by increased support from state and local governments, federally sponsored credit agencies and mortgage pools, and life insurance companies.

The general firming in credit market conditions and concomitant slowing in the market supply of mortgage funds as the year progressed were reflected in a substantial rise in mortgage interest rates that began in the second quarter and accelerated in the final period. The average rate on new commitments for conventional home mortgages in December 1979 was about 2¼ percentage points higher than it had been a year earlier. The marked increase in the cost of mortgage financing encouraged households to postpone or scale down planned expenditures for housing, thus lowering the quantity of mortgage credit demanded. In states with usury ceilings below market rates of interest, supply constraints on the flow of mortgage credit were severe. Such constraints were effectively removed late in the year, however, by federal legislation that temporarily overrode state usury ceilings.

Among nonfinancial sectors, businesses were the only group to record a substantial increase in credit market borrowing in 1979. Net funds raised by this sector totaled $156 billion for the year, 22 percent more than in 1978. The external financing needs of nonfinancial corporations have risen steadily since 1975, as each year the growth in capital outlays by these firms—in particular, plant and equipment expenditures—has exceeded the increase in their gross internal funds. In 1979 corporations continued the

Funds Raised by Nonfinancial Sectors



Government includes federal and state and local governments. Private domestic includes households and nonfinancial businesses.

Flow of funds data at seasonally adjusted annual rates. Data for 1973–78 are half-yearly; for 1979 quarterly.

pattern of financing observed in 1978, relying relatively heavily on short-term sources and avoiding long-term bond issuance at the high interest rates that prevailed during the year. Businesses expanded further their use of mortgage credit from the strong 1978 pace, in association with a sustained high level of commercial construction activity, while net stock issuance continued to be depressed by historically low price-earnings ratios and by retirements associated with mergers and with share repurchases by firms.

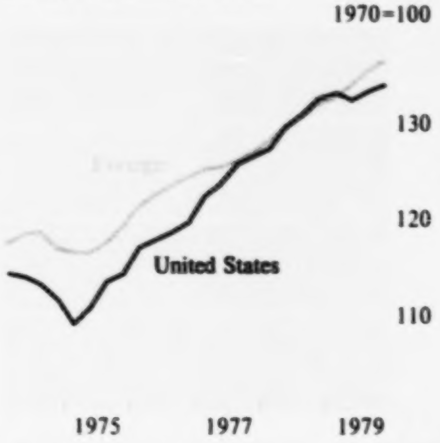
The bulk of corporate short- and intermediate-term credit in 1979 was in the form of commercial bank loans. Finance company loans, however, were unusually large in the first half, while commercial paper issuance rose to record levels in the middle of the year. The increased use of short-term financing since 1976 has resulted in a marked rise, to historically high levels, in the ratio of short-term to long-term debt outstanding for nonfinancial corporations. In the fourth quarter of 1979, as credit conditions tightened, corporations greatly reduced their borrowing from banks. The sharp rise in interest rates late in the year, coupled with stricter nonprice loan terms and more stringent screening of loan applications by banks, apparently encouraged firms to curtail bank borrowing.

Funds provided to nonfinancial sectors by private financial institutions increased moderately in 1979, bolstered by lending activities of money market funds and insurance and pension funds. Pension funds and life insurance companies absorbed a large share of corporate bond issues, and life insurance companies also channeled considerable funds into commercial mortgage activity. In contrast, net funds provided by thrift institutions fell markedly, reflecting the reduced deposit inflows at these institutions.

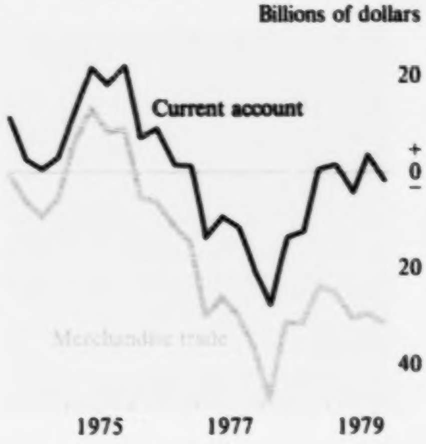
International Developments

During 1979 growth of economic activity in major foreign industrial countries was relatively well maintained, and a much better alignment of current-account balances among industrial countries was achieved. The large surpluses of Japan and Germany, in particular, were eliminated in 1979 while the position of the United States shifted from a large deficit toward near balance. These shifts in current-account positions were brought about by relative trends in economic activity and especially by the lagged effects of the depreciation of the dollar against major currencies during 1977 and 1978. The gradual improvement in the relative current-account position of the United States combined with the effects of the stabilization measures initiated by the United States in November 1978 checked the long slide in dollar rates. By mid-1979, however, the dollar came under renewed selling pressure. Responding to an acceleration in U.S. inflation and persistently high rates of monetary growth, which were depressing the dollar, the Federal Reserve on October 6 raised the discount rate 1 percent and took other measures to assert stronger control over money and credit expansion. These actions had a strong initial effect on the dollar's exchange rate, but

Gross National Product



U.S. Balances on Trade and Current Account



Foreign is multilaterally weighted average of G-10 countries plus Switzerland, using 1972-76 trade weights.

Data for the United States are from the U.S. Department of Commerce and are seasonally adjusted at annual rates.

were offset somewhat by a firming of interest rates in other countries and by uncertainties surrounding the U.S. confrontation with Iran and the Soviet invasion of Afghanistan. These uncertainties tended to overshadow economic developments and to give further impetus to the rise in the price of gold.

CURRENT ACCOUNT BALANCE

Considerable progress was made toward a strong U.S. current account in 1979. The deficit in merchandise trade peaked in early 1978 and then settled at a lower level, declining from an average of $34 billion in 1978 to about $29 billion in 1979, despite an $18 billion rise in payments for imported oil. U.S. exports scored major gains; there was a sizable rise in sales of agricultural products, while other exports rose about 30 percent, including a 12 percent increase in volume. In contrast, U.S. imports from abroad, apart from oil, rose only slightly in volume terms in 1979, but higher import prices raised the value of non-oil imports about 11 percent. As for petroleum, the volume imported showed virtually no change year over year, though inventories were built to record levels in 1979. However, oil import prices in 1979 averaged 40 percent higher than in 1978; they rose about 75 percent over the four quarters of 1979. By the fourth quarter oil imports were at an annual rate of $76 billion, compared with $43 billion a year earlier.

Further gains were registered in the nontrade sector of the current account in 1979; the net return on foreign direct investments was especially buoyant. Total earnings of U.S. direct foreign investment reached about $37 billion, reflecting continued expansion and rising prices abroad, as well as sharply higher profits in the petroleum industry. About half of these earnings were reinvested abroad and were therefore reflected also as an outflow of U.S. private capital. Earnings of foreign direct investments in the United States also rose but on a much smaller scale.

With a reduced trade deficit and higher service income, the U.S. current account moved close to balance late in 1978 and throughout 1979. In contrast, the combined current-account balances of Germany and Japan moved from a surplus of $25 billion in 1978 to a deficit of more than $10 billion in 1979.

While the U.S. current-account balance was on a fairly level path in 1979, private and official capital flows varied widely. Following the dollar-support measures taken on November 1, 1978, there was a strong net inflow of capital through banking channels during the first half of 1979.

and the statistical discrepancy in the international accounts also showed sizable net inflows, probably representing shifts in financing leads and lags. Foreign authorities sold large amounts of dollars in this period to moderate depreciations of their currencies, and U.S. authorities were able to reverse the large sales of foreign currencies that had occurred in the final months of 1978.

U.S. International Transactions[1]

Billions of dollars

Transaction	1978		1979				
	Year	Q4	Year	Q1	Q2	Q3	Q4[2]
Current account[3]	**−13.5**	**.1**	**−.4**	**.4**	**−1.1**	**.8**	**−.5**
Merchandise trade balance	−33.8	−6.0	−29.1	−6.1	−7.7	−7.3	−7.9
Exports	142.1	39.4	182.4	41.3	42.7	47.3	51.1
Imports	175.8	45.4	211.5	47.4	50.5	54.6	59.0
Investment income (net)[4]	21.6	6.6	31.0	6.9	7.5	8.8	7.8
Other services	3.7	.8	3.2	1.0	.6	.6	1.0
Unilateral transfers, private and government	−5.1	−1.3	−5.5	−1.3	−1.4	−1.4	−1.4
Private capital flows	**−27.1**	**−19.0**	**−9.4**	**7.9**	**.6**	**−7.9**	**−10.0**
Bank-reported capital, net (outflow, −)	−16.0	−14.4	8.4	13.7	3.8	−2.9	−6.2
U.S. net purchase (−) of foreign securities	−3.5	−.9	−4.8	−1.1	−.6	−2.1	−1.0
Foreign net purchase (+) of U.S. Treasury securities	2.2	1.5	4.9	2.6	−.2	1.6	.9
Foreign net purchase of other U.S. securities	2.9	.5	2.9	.8	1.2	.6	.3
U.S. direct investment abroad[4]	−16.7	−4.6	−26.4	−5.8	−7.3	−7.3	−6.0
Foreign direct investment in United States[4]	6.3	1.0	7.3	1.0	2.0	2.3	2.0
Other corporate capital flows, net	−2.2	−2.1	−1.6	−3.4	1.8	...	...
Foreign official assets in United States (increase, +)	**33.8**	**18.8**	**−14.8**	**−9.4**	**−10.0**	**5.6**	**−1.0**
U.S. government foreign assets, net (increase, −)	**−3.9**	**−.8**	**−5.0**	**−4.7**	**−.7**	**2.0**	**−1.6**
Reserve position in IMF	4.2	3.3	−.3	−.1	−.1	−.1	(5)
Convertible currencies and other reserve assets	−3.5	−3.1	−.9	−3.5	.4	2.8	−.6
U.S. government foreign credits and other claims, net	−4.7	−1.0	−3.9	−1.1	−1.0	−.8	−1.0
Allocation of special drawing rights	**0**	**0**	**1.1**	**1.1**	**0**	**0**	**0**
Statistical discrepancy	10.7	.9	28.5	4.6	11.2	−.5	13.1

1. Details may not add to totals because of rounding.
2. Data for fourth quarter are partial and preliminary, and include Federal Reserve staff estimates.
3. Current account seasonally adjusted; other accounts not seasonally adjusted.
4. Includes reinvested earnings.
5. Less than $50 million.

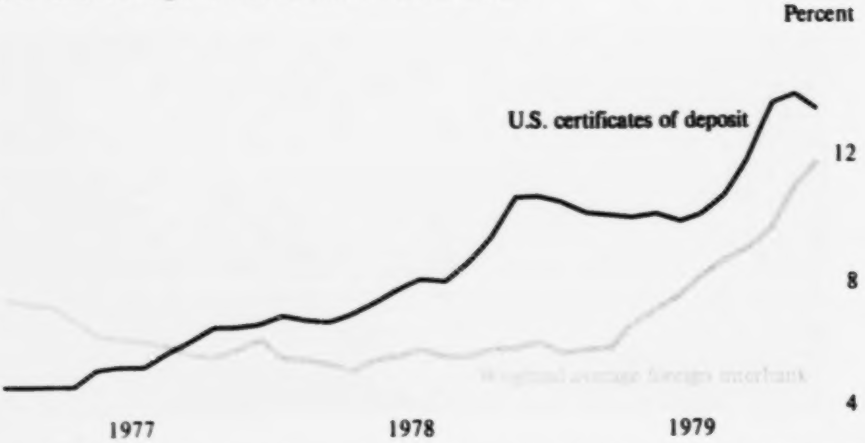
SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis.

By midyear the dollar was again subjected to downward pressure as the market reacted to an acceleration of growth in the U.S. monetary aggregates, rapid inflation, and another surge in oil prices. This pressure was met by heavy intervention by U.S. and foreign authorities, as detailed later, and was reversed on October 6 when the Federal Reserve signaled still more clearly its determined resistance to inflation. Indeed, the threat of rising inflation, stemming in part from further sharp increases in oil prices, touched off a firming of monetary policy in all industrial countries in the closing months of the year, and the relatively large gap between U.S. and foreign interest rates that had been opened by the October 6 measures was considerably narrowed by year-end.

In the year as a whole (though data for recent months are incomplete), a notable feature of the U.S. international accounts was a reported net inflow of private capital through banks of about $8 billion, compared with a net outflow of $16 billion in 1978. Other recorded net private capital outflows, including direct investments, other corporate flows, and dealings in U.S. and foreign securities, rose to about $18 billion in 1979 from about $11 billion in 1978, but more than half of that increase reflected higher reinvested foreign profits of U.S. corporations.

The net capital inflow reported by U.S. banking offices in 1979 reflected mainly flows of liquid funds vis-a-vis foreign affiliated and unaffiliated banking offices. At the same time, U.S. banks added a further $12 billion to their credits to nonbank foreigners.

U.S. and Foreign Three-Month Interest Rates



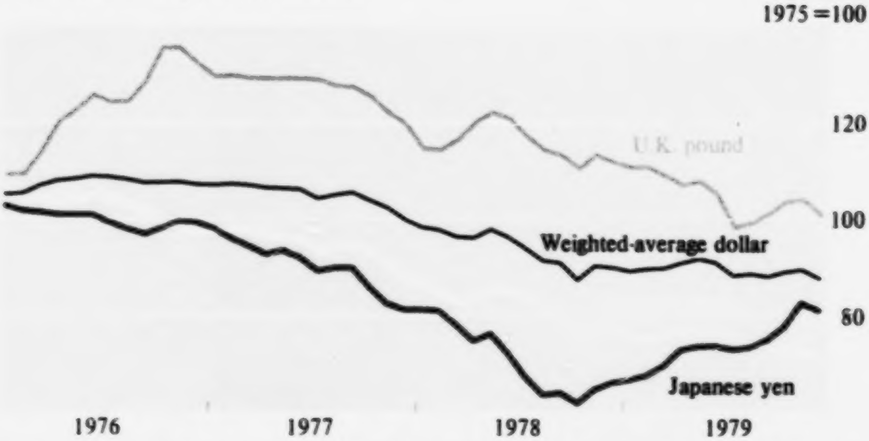
Foreign is multilaterally weighted average of G-10 countries plus Switzerland, using 1972–76 trade weights.

OPERATIONS IN FOREIGN CURRENCIES

From the beginning of the year through late May, the trade-weighted average foreign exchange value of the dollar rose about 5 percent; the dollar advanced about 5 percent against the mark, 6½ percent against the Swiss franc, and nearly 14 percent against the yen. The strength of the dollar enabled U.S. authorities to purchase about the same amount of foreign currencies as they had sold in 1978. By the end of May, the System had repaid all of its outstanding swap debts and had acquired small foreign currency balances. The Treasury had also been able to reconstitute nearly all of the funds raised through drawings on the International Monetary Fund, sales of special drawing rights (SDRs), and sales of the Carter note issues, as well as to accumulate yen balances. In addition, with the strengthened dollar, the U.S. authorities decided to accelerate the purchases of Swiss francs needed to repay pre-1971 swap debt; the last payment was made in March 1979.

When the downward pressure on the dollar emerged in mid-June, the System and the Treasury began intervening in support of the dollar on June 14, selling more than $4.5 billion equivalent of foreign currencies, primarily German marks, in the next six weeks as uncertainties about the direction of U.S. economic policy persisted. The dollar declined more than 4½ percent from mid-June to late July despite the intervention support. With the resolution of some of the domestic political uncertainties and a moder-

Selected Exchange Rate Indexes



Weighted-average dollar is multilaterally weighted average of G-10 countries plus Switzerland, using 1972–76 trade weights.

ate firming in U.S. interest rates in August, the dollar stabilized in exchange markets and the System was able to acquire a small amount of foreign currency for swap repayments. However, in mid-September downward pressure on the dollar reemerged as the growth in U.S. monetary aggregates showed little sign of slowing. By the end of the month, U.S. authorities had provided an additional $3.2 billion in support of the dollar by sales of foreign currencies, again primarily German marks. Nevertheless, the dollar reached a new low for the year at the beginning of October. On a weighted-average basis, the dollar was more than 6 percent below its level at the end of May; it had depreciated 9½ percent against the mark and 6½ percent against the pound. It had appreciated slightly more than 1 percent against the yen, which continued to weaken on exchange markets because of rising oil prices and a growing Japanese current-account deficit.

The October 6 measures by the Federal Reserve spurred a sharp recovery in the value of the dollar, and the United States was able to reverse the direction of its intervention and to purchase small amounts of German marks and Swiss francs. In late October the Treasury announced plans to borrow an additional $2.2 billion equivalent of marks, part in November and part in January 1980, bringing the Treasury's planned issues of foreign-currency securities since November 1, 1978, to $6.4 billion equivalent.

Following the Iranian seizure of U.S. hostages and threats to repudiate U.S. bank credits that led to the freezing of Iranian assets in U.S. banks on November 14, exchange markets became quite unsettled. The dollar generally drifted down through year-end, losing all of the ground gained following the October 6 announcements. While the yen was adversely affected by concern over rising oil prices, the pound sterling benefited from the relative self-sufficiency in oil of the United Kingdom. Central bank intervention was generally light through the year-end. On a net basis, the System acquired a moderate amount of marks for swap repayments, while the Treasury was a net purchaser of dollars in the final months of the year.

At the end of 1979 the weighted-average foreign exchange value of the dollar was slightly less than 1 percent lower than it had been a year earlier; the dollar rose nearly 24 percent against the yen but depreciated against all other major currencies. The depreciation against the Canadian dollar and Swiss franc was slightly more than 1 percent; it was 5 percent against the German mark and nearly 8 percent against the U.K. pound. At year-end, the System's swap debt was valued at $3,176 million, all in marks. The equivalent outstanding swap debt at the end of 1978 was $5,752 million

U.S. Government Purchases and Sales (–) of Foreign Currencies, 1979

Millions of dollars equivalent

Currency	Q1 [1]	Q2	Q3	Q4	Year
Federal Reserve					
German marks	1,973 –289	2,887 –897	836 –3,596	1,117 –548	6,814 –5,329
Swiss francs	1,140 –46	50 –86	67 –67	46 –10	1,303 –208
Japanese yen	316 –34	10 0	0 0	0 0	326 –34
TOTAL	3,428 –368	2,947 –982	903 –3,662	1,164 –557	8,442 –5,571
Treasury					
German marks	912 –456	1,064 –1,533	172 –3,137	115 –472	2,263 –5,598
Swiss francs	1,205 –25	0 0	0 0	0 0	1,205 –25
Japanese yen	9 –17	0 0	0 0	0 0	9 –17
TOTAL	2,127 –497	1,064 –1,533	172 –3,137	115 –472	3,477 –5,639

[1] Purchases of Swiss francs in the first quarter include $299 million equivalent by the System and $1,180 million equivalent by the Treasury to repay pre-August 15, 1971, swap debt. Figures include purchases by the Federal Reserve of Swiss francs against sales of German marks in the first quarter in the amount of $8 million equivalent. Details may not add to totals because of rounding.

equivalent, mostly in marks. At the end of 1979 the System held balances, primarily yen, marks, and Swiss francs, equivalent to $257 million (the 1978 year-end balance was $35 million). The System had a net loss of $4 million on its foreign exchange operations in 1979, including a net loss of $14 million on current operations (of which $6 million was unrealized) and a net gain of $10 million, which is the difference between the exchange-translation liability outstanding on Swiss franc debt as of the end of 1978 and the smaller loss actually realized upon repayment of that debt early in 1979.

Monetary Policy Reports to Congress

Given below are reports submitted to the Congress by the Federal Reserve on February 20, 1979, and on July 17, 1979, pursuant to the Full Employment and Balanced Growth Act of 1978.

REPORT ON FEBRUARY 20, 1979

Recent Economic and Financial Developments

Overview

The current economic expansion is about to enter its fifth year. It thus outranks in longevity every prior cyclical upswing of the postwar era with the exception of that in the 1960s. Yet it has maintained considerable vigor, with real gross national product rising more than 4 percent during the past year. The attendant increases in employment and industrial capacity utilization have reduced considerably the margin of unutilized productive resources in the economy.

The narrowing of the gap between actual and potential output implies that a tighter hold on the nation's aggregate demand for goods and services is necessary if inflationary forces are to be contained. The urgency of such restraint is reinforced by the fact that there has already been an acceleration in the rise of wages and prices. Aggregate measures of unit labor costs and prices advanced around 9 percent in 1978, appreciably more than in the preceding years of this economic expansion.

Apart from the hardship that this large and generally unanticipated surge in inflation created for many families and business enterprises, the behavior of prices deepened concerns around the world regarding the stability of the U.S. economy and the soundness of the dollar. The value of the dollar on foreign exchange markets declined through most of 1978, exacerbating domestic inflationary pressures in the process. To prevent a serious disruption of the international financial system, a broad program of corrective actions was initiated last November. The dollar has since strengthened but remains vulnerable to shifts in sentiment among exchange-market participants.

The longer-range strength of the U.S. economy and of the dollar depends greatly on our success in retarding inflation. This was recognized during the past year in actions taken to reduce the size of the federal budget deficit, in the establishment of voluntary wage–price standards, and in efforts to curtail the inflationary impact of federal regulation. In the monetary sphere, too, there was movement toward moderation of growth in aggregate demand and restraint of inflation as the Federal Reserve acted to prevent excessive growth of money and credit.

Aggregate Economic Activity

The current economic upswing, which began in the spring of 1975, ranks among the most durable in this nation's history. In the period since World War II, only the expansion in the 1960s was longer, and it was marked by massive increases in military outlays associated with the Vietnam War.

The past four years have seen sizable gains in production and employment. Between the first quarter of 1975 and the fourth quarter of 1978, real gross national product rose more than 20 percent. By last month, industrial production had increased about 35 percent and nonfarm payroll employment more than 14 percent from their levels at the cyclical trough in March 1975.

The momentum of expansion, furthermore, has been well maintained. Real GNP increased 4.3 percent from the fourth quarter of 1977 to the fourth quarter of 1978—a bit slower than the average pace over the earlier part of the expansion, but still well above the trend growth of potential output in the economy. The persistent strength of aggregate demand was demonstrated by the surge in activity during the final quarter of last year, when GNP grew at an annual rate in excess of 6 percent. Available indicators suggest that the economy has remained generally strong in the opening months of 1979.

Residential construction, which provided a good deal of impetus to the early recovery, stayed on a high plateau last year in the face of rising interest rates and a continued rapid escalation in building costs. Household demands for shelter have been bolstered by demographic trends as well as by an inflation-hedging motive. The sustained advance in economic activity also has been fostered in good part by strength in consumer spending. A marked turnaround in the willingness of consumers to spend—reflected in a sharp drop in the personal saving rate—provided much of the impetus to overall expansion in the early stages of the economic recovery, and consumption expenditures have remained unusually robust throughout the upswing.

In the business sector, spending on new plant and equipment has continued to rise, but there have not as yet been the large increases seen in some earlier cycles. Business fixed investment actually declined during the initial quarters of the economic expansion as firms concentrated on the repair of strained financial positions in an environment of low capacity utilization. Capital spending policies have continued to be characterized by considerable caution, and it was not until mid-1978 that the previous peak level of real outlays was reattained. Firms also have exercised caution in managing their inventory positions, and stocks generally have remained lean relative to sales.

Government purchases of goods and services rose briskly at both the federal and state and local levels during the second half of 1978 but have been a moderating influence on overall activity during most of the cyclical upswing. The overall budgetary position of the government sector, including transfer payments and revenues, has remained stimulative throughout the expansion, albeit in diminishing degree. An improving net export position contributed to the expansion of GNP during the early recovery phase, but deterioration in the trade balance was a decidedly negative factor from 1976 to early 1978. The U.S. trade deficit did narrow over the course of 1978, however, owing in part to the strengthening of economic expansion in other major industrial countries.

Personal Consumption Expenditures

Consumer outlays grew 3.8 percent over 1978 after averaging 5½ percent, at an annual rate, earlier in the economic recovery and expansion. The slower growth of spending reflected relatively smaller recent gains in real disposable income; increases in real personal income were eroded by larger tax burdens related to higher contributions for social security and the interaction of inflation and a progressive tax system.

The proportion of consumption in gross national product has held at a high level over the course of this upswing. In prior cycles this share typically fell as the expansion matured. In particular, household spending for durable goods has hovered at around 10 percent of GNP throughout the past three years, while during other economic expansions it accounted, on average, for about 7½ percent. This exceptional strength in consumption and the associated rapid increase in installment credit and low saving rates can be attributed, in part, to the higher relative number of younger households. But it also appears to be in some degree a reaction of households to persistently high inflation rates.

For example, opinion surveys suggest that many consumers have been buying durable goods in anticipation of price increases.

Business Fixed Investment

Real business fixed investment rose 8¼ percent over 1978. This was nearly the same pace of advance as in the two previous years and almost twice the rate of expansion in aggregate activity. Recently, nonresidential construction activity has become an important source of business investment growth. In 1978, real spending for such structures increased 12¾ percent as outlays for commercial and industrial buildings showed particularly impressive gains. On the other hand, investment in producers' durable equipment grew about 6½ percent in real terms during 1978 compared with increases of more than 10 percent in each of the previous two years. Demands for motor vehicles, which were exceptionally strong earlier in the expansion, began to tail off in 1978, while machinery outlays continued to advance at about the same moderate pace experienced since early 1976.

Inventory Investment

Investment in business inventories was characterized by caution in 1978, as it generally was in the three previous years. As a result, aggregate inventory-sales ratios remained at or below historical averages. This caution, which can be traced back to the severe inventory cycle of 1974–75, appears to have been responsible for the avoidance of the types of overhangs that preceded several prior cyclical downturns. Incipient buildups of stocks have been met with prompt increases in sales promotion or curtailments of orders and production. Most recently, overhangs that developed at general merchandise retail outlets in the fall apparently were corrected by the sharp rise in sales during the holiday season and a slowing of production of durable home goods.

Residential Construction

The rate of private housing starts advanced briskly during the 1975–77 period and in 1978 they were sustained at the high annual rate of 2 million units. Spending for residential construction in real terms increased at an average annual rate of 21 percent from the 1975 trough before leveling off in 1978. In addition to constraints on production capacity, the recent developments in housing activity reflect the tightening in financial markets. Interest rates on both construction loans and long-term mortgages rose appreciably in 1978 and by year-end they had reached usury ceilings in a number of states and record postwar highs in many other areas. Even so, the variable-ceiling, six-month time accounts introduced in June of last year buoyed deposit growth at key mortgage lenders and helped maintain the high rate of housing construction.

Within the housing sector, the rise in single-family starts led activity early in the recovery. More recently, multifamily starts—supported by an increase in federally subsidized rental units—have increased while single-family starts have remained above their 1972–73 peak levels. Indeed, in the fourth quarter of 1978, total housing starts averaged an annual rate of 2.1 million units, the same as a year earlier.

International Trade

After providing some initial stimulus to economic growth during the early recovery period in 1975, the U.S. balance of trade began deteriorating. In large part this reflected the relatively stronger rate of economic expansion in the United States compared with our major trading partners. The deficit in net exports narrowed during 1978, however, as activity abroad picked up in contrast to the moderation in the U.S. expansion. In addition, the more favorable trade balance reflected a 20 percent rise in agricultural exports last year, associated with unusually poor harvests of wheat and soybeans in the Southern Hemisphere.

Government

Growth of purchases by the federal government has been uneven in this expansion. In real terms, such purchases increased little during 1975 and 1976, rose substantially in 1977, and then—despite a surge in the second half of the year—declined slightly in 1978. Total expenditures, however, have risen consistently, reflecting increased grants to state and local governments and transfers to individuals for social security, food stamps, and retirement benefits. Revenues have increased even more than outlays over the past several years, so that the federal budget deficit has declined from $66.4 billion in fiscal year 1976 to a projected $37 billion for the current fiscal year that ends next September.

State and local government purchases also have grown irregularly over the past four years. In real terms, outlays by this sector for goods and services expanded at a 2¼ percent annual rate during the second half of 1978, matching the average pace over the expansion as a whole. This is well below the trend rate of increase experienced during the 1960s and early 1970s. The slowing of growth reflects changing requirements for services, associated with demographic developments, and a degree of fiscal conservatism prompted partly by the financial difficulties encountered by some communities in recent years. In 1978, however, a tendency toward tax relief—occasioned in part by voter preferences expressed in California's Proposition 13 and like measures elsewhere—outweighed the impact of spending economies on budgets. As a result, although the aggregate operating surplus of state and local governments totaled $6 billion for the year, this was only half the size of the 1977 surplus.

Labor Markets

Labor demand has been strong throughout the current economic expansion. During the three years following the cyclical trough in early 1975, nonfarm payroll employment advanced at an average annual rate of 3.7 percent—compared with a 2.8 percent median rate of gain during the five previous postwar expansions. During the past year—at a stage when in earlier cycles employment levels had begun to level off or even to fall—payroll employment has continued to advance at a 4.2 percent annual rate. Over the almost four years of expansion, employment has increased by 12 million, and today the ratio of employment to total civilian population aged 16 and over stands at the highest level on record.

Employment in the goods-producing sector of the economy rose rather slowly early in this recovery, reflecting in part the sluggish behavior of business fixed investment. It was not until late 1978—as a result of large hiring increases in the hard goods industries—that factory employment reached its prerecession peak. Similarly, construction hiring showed only small increases for nearly three years after the trough. During 1978, however, employment in contract construction surged ahead to record levels.

In the private service-producing sector, employment dipped only briefly in early 1975 and has been on a steady uptrend since then—far exceeding the gains of previous expansions. The trade and service industries have continued to grow faster than other sectors, and by the end of 1978 they accounted for more than 4 of every 10 jobs in nonfarm establishments. In contrast to the private sector, government hiring has been modest. Federal government civilian employment has been fairly stable at around 2¾ million over the past four years, about the same level that has prevailed since the late 1960s. State and local government employment has risen, but growth has been slowed substantially in recent years as a consequence of reduced needs for education personnel and fiscal retrenchment by many units.

The reduction of demand for labor in education reflects the shift in the age structure of the population that has been affecting not only school enrollments but also the size of the work force. Growth of the teenage population (ages 16 to 19) in the late 1960s and early 1970s was exceedingly large, reflecting the attainment of working age by the postwar baby boom cohort. At the same time, labor force participation rates for teens rose sharply. In the mid-1970s, growth of the 16 to 19 age group slowed, and in 1978 the teenage population actually began to contract. Nonetheless, with participation rates still rising rapidly, the teenage labor force continued to grow at a rapid pace (up 3.2 percent in 1978 compared with 1.6 percent on average in the preceding four years).

An even more significant factor in the expansion of the work force has been the continued rise in the participation rates of adult women. The longer-run trend, which reflected low birth rates as well as changing attitudes and social trends, apparently was augmented in the 1970s by a desire of families to maintain their material living standards in the face of rapid inflation. As a result of these participation-rate patterns, the total civilian labor force grew 3 percent during 1978—about the same as in 1977, but up considerably from the 2¼ percent annual rate during preceding years of the decade.

With the growth of employment outstripping even the large increase in the size of the labor force, the unemployment rate fell ½ percentage point over the course of 1978 to just under 6 percent. Labor market conditions improved significantly for most groups of skilled and experienced workers. For example, unemployment rates for workers 25 to 54 years old, skilled blue collar workers, and workers seeking full-time employment all were at or near the levels reached in 1972 when labor and product markets were beginning to tighten noticeably. While there was as yet no general shortage of skilled workers during 1978, many firms reportedly were finding it increasingly difficult to fill certain job vacancies at prevailing wage rates.

The improvement in employment conditions during the current expansion has not been uniform. Despite the gains made by many groups, unemployment rates for younger workers, minorities, and the unskilled were still very high at the end of 1978. For example, the unemployment rate for teenagers at the end of 1978 was 16¼ percent, more than four times the rate for workers 25 to 54 years old; for minority youth the rate was over 35 percent. Younger workers between 16 and 24 years of age accounted for about half of all of the joblessness in the fourth quarter of 1978.

The enlarged proportion of the labor force accounted for by teenagers and women means that the overall unemployment rate does not imply the same degree of labor force pressure that it would have in past years. These groups tend to have relatively high rates of joblessness for a number of reasons, including generally more limited training and work experience. As a rough adjustment for such structural influences, the average unemployment rate can be recomputed using the age–sex composition of the labor force in the mid-1950s. The result of such a calculation is an unemployment rate about one percentage point below its current level, which vividly illustrates that the level of labor utilization consistent with price stability may change considerably over time. To enhance the possibility of simultaneously achieving low unemployment and price stability, it may be necessary to augment monetary and fiscal policies with carefully focused programs to facilitate job placement and to provide skill training.

Productivity

The 3.5 million increase in payroll employment during 1978 was much larger than would have been expected on the basis of the historical relationships between output changes and labor demand. Although growth in real GNP decelerated from 5½ percent in 1977 to 4¼ percent in 1978, businesses added to their payrolls at almost the same rate. Output per hour of work rose only slightly over the four quarters of 1978.

Much of the slowdown in productivity growth last year occurred outside the manufacturing sector; output per hour in manufacturing increased 3½ percent during 1978. Normally, productivity growth slows as labor markets tighten and capacity constraints are approached, but the falloff in productivity gains in the past two years has been particularly sharp.

This poor performance of labor productivity continues a trend toward slower growth evident since the late 1960s. During the period from 1947 to 1967, productivity in the nonfarm business sector rose on average by 2⅔ percent per year, and accounted for almost 70 percent of the gain in output for this sector. Since 1967 the rise in output per hour has slowed, with average annual gains of only 1.2 percent recorded since 1973. As a result, less than 50 percent of output growth over the last five years can be attributed to gains in efficiency.

The deterioration of productivity performance in recent years is a complex phenomenon that is not completely understood. It appears, however, that a crucial factor has been the failure to maintain an adequate rate of capital formation. Indeed, the nation's stock of capital has shown little growth relative to the size of the labor force over the past decade; in contrast, the capital-labor ratio trended upward rapidly in the preceding 20 years. Other factors that may have contributed to reduced productivity growth in recent years are the influence of environmental and safety regulations that divert resources to uses not measured in the national income and product accounts and the increase in the proportion of young and inexperienced workers in the labor force.

Investment

Since the early 1960s there has been a marked trend toward slower growth of the stock of business capital in the United States. Although real gross business fixed investment last year surpassed the 1973 record, still stronger investment activity will be needed if there is to be a sustained reversal of this trend. In part this merely reflects the arithmetic truth that unchanged absolute amounts of investment translate into declining percentage increases in a growing stock of plant and equipment. Also important, however, is the fact that it is *net* investment—that is, gross investment less the depreciation of existing capital goods—that adds to the capital stock, and real net investment has yet to reach its previous peak level. Because the fraction of the capital stock in the form of relatively short-lived equipment has been increasing in recent years, a higher level of gross investment is now needed simply to maintain the existing capital stock.

It also must be noted that even the figures for net investment probably overstate the contribution that capital outlays have been making recently to the expansion of productive capacity. A significant share of plant and equipment spending has been undertaken to meet government pollution, health, and safety regulations. During the past several years roughly 5 percent of total capital spending has been for the purpose of pollution abatement, and some estimates suggest that perhaps an additional 2 percent of investment has been for improvements in health and safety conditions. Although these outlays may well yield important benefits to society, they do not directly enhance productive capacity.

When an economy is near full employment, the commitment of additional resources to capital formation will require some near-term sacrifice of consumption by individuals or government. However, there is ample evidence that higher levels of investment effort can enhance long-range economic growth and raise living standards. The increase in U.S. capital spending last year raised the ratio of real gross business fixed investment to GNP to 10.2 percent—the first time since 1974 that it reached the 10 percent level, but still somewhat below the average of the late 1960s and early 1970s. Although international comparisons must be made with caution, owing to differences in accounting and other technical problems, it is clear that other major industrial nations have allocated greater shares of GNP to investment and, as a result, have enjoyed substantially faster increases in productivity and output. While this does not lead to the conclusion that the United States should attempt to achieve the same investment-GNP ratios as prevail elsewhere, it tends to confirm the proposition that this nation would benefit from higher proportions of capital spending to GNP than have been experienced in recent years.

International Trade and Payments

From the mid-1960s through the early 1970s, the U.S. merchandise trade balance moved gradually from surplus to deficit. Then, during the 1974–75 worldwide economic slowdown the United States suffered a disproportionately sharp contraction, so that—despite an enormous increase in our outlays for imported oil—the U.S. trade balance swung into surplus in 1975. The surplus proved temporary, however; the subsequent economic recovery was stronger here than abroad, and this played a major role in the steep increase of our trade deficit from 1976 through early 1978.

The trade deficit in 1978 was $34 billion, slightly larger than in 1977. But the deficit peaked at an annual rate of $45 billion in the first quarter of 1978, and developments in both exports and imports contributed to a narrowing of the imbalance to a rate of about $30 billion in each of the subsequent quarters.

The growth of exports accelerated in the second quarter. The step-up was partly attributable to temporary causes—for example, demand for U.S. agricultural commodities was stimulated by poor harvests in the

Southern Hemisphere. More important was a strengthening of economic activity abroad and the improved competitiveness of U.S. goods resulting from the substantial depreciation of the U.S. dollar that had begun in the fall of 1977. The real volume of nonagricultural exports increased 6 percent in 1978, and growth picked up strongly in the second half of the year. Prices of exports increased in line with the general pace of domestic inflation, and the total value of merchandise exports rose 17 percent from 1977.

The relatively moderate rise in the volume of imports in 1978, following two years of very large increases, resulted primarily from a slower increase in nonoil imports, but it was reinforced by some decline in petroleum imports. Although total U.S. petroleum consumption is estimated to have increased 3 percent, the higher demand was more than met by the increased Alaskan production and by a drawing down of inventories from unusually high levels. The total value of imports increased 16 percent in 1978 with the gain spread over most major commodity categories. Almost half of this increase was in volume terms as imports responded to the continuing strength in U.S. economic activity. Prices of nonoil imports were boosted by the decline in the international value of the dollar.

The current-account deficit in 1978, estimated at $17 billion, was slightly larger than in 1977. As in other recent years, net receipts from service transactions provided a substantial offset to the merchandise trade deficit. Earnings, fees, and royalties from foreign direct investments have shown a strong uptrend during the 1970s.

In the period between the onset of generalized floating of currencies in March 1973 and September 1977, the exchange value of the dollar went through several phases of appreciation and depreciation. The average value of the dollar increased sharply (nearly 15 percent) from October 1973 to January 1974, despite large sales of dollars by foreign central banks. Continued large sales of dollars by foreign central banks in 1974, later reinforced by the easing of domestic interest rates associated with the U.S. recession, contributed to a decline in the dollar that began in the first quarter of 1974 and did not end until the spring of 1975. Thereafter, the emergence of a large current-account surplus and a relative firming of U.S. interest rates led to a substantial appreciation of the dollar until the spring of 1976. The dollar subsequently held relatively steady until the fall of 1977.

The dollar began to depreciate markedly against most major foreign currencies in late September 1977 as forecasts for 1978 suggested that the U.S. trade deficit would be no smaller than in 1977. The decline continued through the end of 1977, despite large intervention purchases of dollars by foreign central banks. An announcement in January 1978 that the U.S. Treasury would join the Federal Reserve in exchange-market intervention in German marks, followed by an increase in the discount rate, improved market sentiment only temporarily, and by early April the dollar had declined about 10 percent on a weighted-average basis. Between early April and mid-May, a relative firming of U.S. interest rates contributed to a recovery, but the dollar declined fairly steadily thereafter in response to continuing concerns about the size of the U.S. trade deficit and increasing fears that U.S. price performance was deteriorating.

Although some depreciation of the dollar was justified by the need to restore external balance in the face of differential growth rates in the United States and major foreign economies and a relative worsening of U.S. inflation, by mid-summer it was clear that the dollar's decline was becoming excessive in trading that was increasingly disorderly. Consequently, in August the Federal Reserve announced a ½ percentage point increase in the discount rate and reduced to zero the reserve requirements on borrowings by member banks in the Eurodollar market. The Treasury later announced that it would increase the size of its regular monthly gold auctions. These measures produced a brief rally and then a few weeks of stability for the dollar. However, the dollar's slide soon resumed. After the President announced his wage-price program on October 24, the decline steepened alarmingly, threatening to undercut the anti-inflation effort at home and to lead to further erosion of confidence abroad. By late October, the dollar had fallen 21 percent from its September 1977 level.

Under these circumstances, more forceful action was required. On November 1, the Federal Reserve increased the discount rate by 1 percentage point and imposed a supplementary reserve requirement of 2 percentage points on large time deposits. To increase the availability of foreign currencies for exchange-market intervention, enlarged swap lines were arranged with the central banks of Germany, Japan, and Switzerland. The U.S. Treasury simultaneously announced its intention to draw on its reserve position in the International Monetary Fund, to sell special drawing rights, and to issue foreign-currency-denominated securities. In addition, it announced a doubling in its rate of gold sales.

The aim of these measures was to correct the excessive depreciation of the dollar and thereby to counter upward pressures on the domestic price level. When viewed in its entirety, the policy initiative of the administration and the Federal Reserve System indicated that the United States recognized the need for an integrated approach in addressing domestic and international economic concerns. The announcement of these measures on November 1 produced a dramatic jump in the dollar's exchange value. On that day alone the dollar advanced by 5 percent on a weighted-average basis. Heavy cooperative central bank intervention over the following few weeks provided support for the dollar as market participants tested the authorities' resolve, but the need for such intervention abated in January. As of mid-February of this year, the dollar was more than 7 percent above its October low on a weighted-average basis.

Prices

Inflation typically has accelerated over the course of cyclical expansions in economic activity, and this upswing has proven no exception. However, the marked increase in the pace of price advance during the past year was in large measure a consequence of forces not directly related to an intensification of general demand pressures on available productive resources. Government-mandated increases in costs and special developments in the agricultural and international sectors contributed substantially to the pickup in inflation during 1978.

Inflation moderated during the first stages of the cyclical recovery in 1975 and 1976. The earlier extraordinary pressures (associated with the rise in oil prices, the sharp escalation in food prices, a worldwide boom in other commodities, and domestic price decontrol) subsided, and the considerable slack in labor and product markets restrained wages and prices. Inflation began to speed up again in 1977, however, and prices then surged in 1978. The consumer price index, the producer price index, and the fixed-weight price index for gross business product all registered increases of around 9 percent during 1978, about 2 percentage points more than in the preceding year.

The acceleration of inflation last year reflected importantly the pressure of rising labor costs. Wage rates in the private nonfarm sector increased 8¼ percent, compared with about 7½ percent in each of the preceding two years. A boost in the federal minimum wage contributed appreciably to the accelerated rise of wages; the impact was especially noticeable in the trade sector, which has the largest concentration of lower-wage workers and had average wage increases of more than 9 percent last year.

Hourly compensation, which includes, in addition to wages, the costs to employers of social insurance contributions and of privately negotiated fringe benefits, rose 9¾ percent—about 2 percentage points faster than in 1977. About one-quarter of the acceleration resulted from increased social security taxes and unemployment insurance contributions. In addition, private fringe benefits continued to rise faster than wages.

Given the weak performance of labor productivity, the larger compensation gains were translated into rapid increases in unit labor costs. Unit labor costs in the nonfarm business sector rose 9 percent during 1978 versus 6⅓ percent in 1977. As 1979 began, labor costs again were given an upward jolt by further increases in the minimum wage and social security taxes.

Apart from the broad pressures exerted by rising unit labor costs, the general level of prices was affected considerably in 1978 by developments in the farm and food sector. Retail food prices rose 12 percent over the year—the largest increase since 1974. The increases at the retail level reflected a rise of almost 20 percent in farm prices during 1978 following little change in the preceding year. Meat price increases were particularly rapid, as beef production continued to decline.

The decline in the foreign exchange value of the dollar also aggravated inflation. Aside from the direct impact of higher prices for imported merchandise, the price-restraining pressure of foreign competition was weakened for many domestic products. Large price increases for domestically produced automobiles and other durable goods reflected both of these effects. The inflationary pressures associated with the steep depreciation of the dollar that had begun in September 1977 appear to have accounted for about 1 percentage point of last year's rise in the consumer price index.

At the producer level, the inflation of prices of capital equipment accelerated considerably less than that for consumer finished goods. But crude materials prices, for both food and nonfood items, increased sharply, and prices for construction materials also rose rapidly. In the first month of this year the continuing strength of inflationary forces was demonstrated by a 1.3 percent jump in the producer price index; although consumer foods posted an especially large increase, all major groupings of finished goods and materials showed accelerated advances.

Financial Markets

Interest Rates. Interest rates generally declined during the early part of the current economic expansion. This departure from usual cyclical patterns probably was attributable in part to a diminution of inflation expectations associated with the observed slowing in the advance of prices and to the limited credit needs of businesses, which were pursuing cautious capital spending policies. Interest rates began to move upward in the spring of 1977, however, as the Federal Reserve acted to restrain accelerating growth in money and credit. Over the course of 1977, yields on short-term market instruments generally rose about 2 percentage points, while corporate and Treasury bond yields increased around ¾ percentage point.

With inflation picking up, the margin of unutilized resources narrowing, and the dollar under downward pressure in foreign exchange markets, the Federal Reserve applied increasing restraint to the expansion of money and credit in 1978. This was reflected in further increases of 3 to 4 percentage points in most short-term rates over the course of the year. The combination of rising short-term rates and heightened inflation expectations resulted in increases of roughly 1 percentage point in bond yields. By year-end, a number of interest rates were near or above the peak levels of 1974.

Monetary Aggregates. The monetary aggregates have exhibited some unusual patterns of behavior during the past several years. This has been especially true with respect to the narrow money stock, M-1. During 1975 and 1976, growth in M-1 averaged just over 5 percent per year. Given the concurrent decline in interest rates, the sizable increases in M-1 velocity—that is, the ratio of GNP to M-1—were much larger than would have been predicted on the basis of previous historical relationships among money, income, and interest rates.

The moderation of the public's demand for M-1 may have reflected to a degree an unusually strong cyclical swing in confidence and increased willingness to spend out of existing cash balances as the economy recovered from a severe recession. However, there is also considerable evidence that other factors played an important role. The unprecedentedly high level reached by interest rates in 1974 stimulated the creation and adoption of new cash management techniques that permitted individuals and businesses to economize on nonearning demand deposits. This development apparently continued to exert a significant influence even after interest rates turned downward, and it was reinforced by several important legislative and regulatory developments and innovations affecting the payments system. These included the authorization of negotiable order of withdrawal (NOW) accounts in all of New England, of savings accounts for businesses and governmental units, and of preauthorized third-party and telephone transfer privileges for personal savings accounts.

By the beginning of 1977, the level of M-1 was well below that predicted by most standard econometric models of the demand for money. This downward shift in money demand abated in early 1977, however, and growth of M-1 generally conformed to historical patterns until the final months of 1978. M-1 expanded 8 percent during 1977 and at about the same pace over the first three quarters of 1978; rising interest rates and slowing economic expansion worked to moderate M-1 growth over this span, but these influences were offset by the effect of accelerating inflation on transactions requirements.

On a quarterly average basis, M-1 growth in the fourth quarter of 1978 was at a 4.4 percent annual rate, but the average level of the money stock in January was slightly below that for October. A portion of this weakness is the direct consequence of the introduction of automatic transfer services (ATS) last November 1; many individuals have shifted their transactions balances from checking accounts to savings accounts from which funds are automatically transferred to cover checks. These shifts appear to have reduced M-1 growth rates by roughly 3 percentage points per month, on average. Even after allowance for this, however, growth in M-1 has been weaker than might have been expected in light of the recent expansion of income and spending. It may be that, as in 1974, interest rates have reached a high threshold level at which households and businesses are induced to seek out and adopt cash management techniques that permit major economies in demand deposit holdings. The advent of ATS—which occasioned basic changes in the checking account pricing policies of many banks—undoubtedly has caused many individuals to assess more carefully the opportunity costs of holding non-interest-earning demand deposit balances as compared not only with ATS accounts but also with other highly liquid interest-earning assets.

The behavior of the interest-bearing components of the broader monetary aggregates—M-2 and M-3—was generally in line with historical patterns during the first three years of the economic upswing, but there has been a marked deviation since last June. Commercial banks and thrift institutions experienced rapid growth of savings and small-denomination time deposits until the latter part of 1977. At that point a gap began to develop between interest rates on short- and intermediate-term market securities and the rates permitted on insured deposits by federal regulations. As the gap grew, inflows to savings and small time accounts gradually diminished through the spring of 1978. Commercial banks found it necessary to rely more heavily during this period on large time deposits and other managed liabilities to fund their lending activities, and savings and loan associations borrowed heavily from Federal Home Loan Banks.

To prevent a repetition of past episodes when markedly reduced deposit inflows led to an abrupt curtailment of credit to homebuyers and others reliant on the depositary institutions for credit, the federal regulatory agencies authorized two new time deposit categories effective June 1. One was an 8-year account paying up to 7¾ percent at commercial banks and 8 percent at thrift institutions. The other was a 6-month "money market certificate" (MMC) whose maximum rate varies weekly with the average yield on newly issued 6-month Treasury bills. Given rate relationships, the 8-year certificate has not added significantly to overall deposit flows, but quite the contrary is true of the MMCs. During the first 5 months of 1978, time and savings deposits subject to rate ceilings at commercial banks, savings and loan associations, and mutual banks grew at a 7.9 percent annual rate; since the beginning of June, these deposits have grown at a 10.3 percent rate despite substantial further increases in market interest rates. MMC balances at the end of January totaled about $105 billion and accounted for 7¾ percent of savings and small time deposits at banks and almost 13 percent at thrift institutions.

The MMCs have greatly reduced the sensitivity of time and savings deposit growth to changes in market interest rates, but they have not eliminated it. Indeed, inflows have moderated during the past few months, at least partly in response to the substantial further rise in interest rates. Increased noncompetitive tenders in auctions of Treasury securities and record growth of money market mutual funds are indications that recent interest rate levels have been inducing some diversion of funds from savings and small time accounts subject to fixed rate ceilings.

Credit Flows. Although accelerating inflation has tended to dampen the impact of rising nominal interest rates on credit demands, there has been a perceptible flattening of the overall pace of borrowing in the economy over the past year. Total funds raised in credit markets by the private domestic nonfinancial sectors have expanded only moderately since the second half of 1977 after having risen rapidly during the earlier part of the economic expansion. Although the liquidity of depositary institutions has declined over the past two years, the introduction of the MMC has prevented the disintermediation that accompanied previous interest rate cycles and has permitted banks and thrift institutions to continue to account for a very large share of the funds advanced to ultimate borrowers.

Households, in particular, are heavily reliant on depositary institutions for credit, and their demands for funds have remained strong. Home mortgage borrowing in 1978 was slightly larger than in 1977, and consumer installment borrowing rose to a new record as households financed purchases of autos and other large ticket items. The aggregate flow of credit to households in 1978, at more than $160 billion, was 15 percent greater than in 1977 and three times the volume recorded in 1975.

The buildup of indebtedness by households over the last three years has outstripped both the growth of this sector's financial asset holdings and of disposable income. Repayment burdens have reached record proportions. Although loan delinquency data indicate that families have not as yet encountered significant difficulty in meeting their obligations for debt service, the diminished liquidity of household financial positions suggests a greater fragility and vulnerability to any deterioration of income flows.

The nonfinancial business sector also experienced some decline in liquidity in the past year. The gap between corporate capital spending and internal cash flow widened, and firms met a substantial portion of their external financing needs through short-term borrowings—particularly from commercial banks. While commercial mortgage borrowing increased and private bond placements remained large, many of the big, highly rated industrial firms that have ready access to the public bond markets evidently preferred to defer long-term financings in the expectation that long-term rates would eventually decline. As a consequence, the aggregate ratio of liquid assets to short-term liabilities in the nonfinancial corporate sector declined over the course of 1978, to a level only slightly above the 1974 low.

State and local borrowing was about the same in 1978 as in 1977.

Advance refundings again accounted for a sizable share of tax-exempt bond issuance, but such operations virtually ceased after August owing to the combination of restrictive Internal Revenue Service regulations and rising interest rates. Despite some rise in the past few months, the ratio of yields on municipal bonds to those on taxable obligations has remained relatively low by historical standards, reflecting in part the continued demand for tax-exempt securities by casualty insurance companies, by commercial banks, and by individuals.

Borrowing by the U.S. Treasury has declined over the past year, reflecting the diminution of the federal budget deficit. Government borrowing from the public totaled $59 billion in fiscal year 1978, but is projected by the administration at about $40 billion in the current fiscal year. The preponderance of the increase in outstanding Treasury debt during 1978 was absorbed by state and local governments, which purchased a large volume of nonmarketable Treasury securities with proceeds of advance refundings, and by foreign official institutions, which invested dollars obtained in exchange-market intervention.

Commercial banks satisfied a substantial proportion of the credit demands of households, businesses, and state and local governments during 1978. Total bank credit expanded 10.9 percent over the course of the year, with loan portfolios increasing by 14.6 percent. To meet loan demands many banks had to liquidate holdings of Treasury securities and to borrow either from correspondents or in the open market through the issuance of large CDs or nondeposit liabilities such as federal funds and repurchase agreements. Aggregate bank liquidity ratios declined appreciably, especially among the smaller and regional institutions that have experienced the strongest business loan growth during this expansion.

Thrift institutions experienced considerable cash-flow pressure during the first half of 1978, but they have been able to rebuild their liquid asset positions since the MMCs began to bolster deposit growth. Thrift institution mortgage lending declined moderately during 1978, although there was some upturn in the final quarter in lagged reaction to the midyear pickup in deposit inflows. Outstanding loan commitments also rose during the second half but in December were slightly below the year-earlier level.

Life insurance companies and pension funds have continued to experience large inflows of investable funds. In 1978 as in previous years of the economic expansion, these institutions absorbed the bulk of the net issuance of corporate bonds. The insurance companies also have supplied a large share of commercial mortgage credit.

Objectives and Plans of the Federal Reserve

The Objective of Monetary Policy in 1979

The objective of the Federal Reserve is to foster financial conditions conducive to a continued, but more moderate, economic expansion during 1979 that should permit a gradual winding down of inflation and the maintenance of the stronger position of the dollar in international exchange markets. Given the limited margin of unutilized labor and industrial resources remaining in the economy, it is critically important to avoid strong aggregate demand pressures that would aggravate our already serious inflation problem. At the same time, the current condition of general balance in the economy suggests that it should be possible to continue restraint to relieve inflationary pressures without triggering a recession.

Growth of Money and Credit in 1979

The Federal Open Market Committee (FOMC) has selected growth ranges for the monetary aggregates that it believes will bring to bear an appropriate degree of restraint in light of the current outlook for fiscal policy and the underlying strength of private demand in the economy. Over the year ending with the fourth quarter of 1979, M-1 is expected to grow between 1½ and 4½ percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. Commercial bank credit has been projected to increase between 7½ and 10½ percent during the year.

The growth range for M-1 calls for a marked deceleration from the pace of recent years. This reflects in part an expectation that the shifting of funds to savings accounts with automatic transfer facilities and to the NOW accounts recently authorized in New York State will continue to depress the growth of demand deposits throughout 1979. The Board's staff has projected that such shifting will damp growth in M-1 this year by around 3 percentage points. Because there has been only a brief period of experience upon which to base an analysis of the attractiveness of the ATS accounts, this projection carries a broad range of uncertainty.

The unexplained flatness of M-1 in recent months introduced another uncertainty in the FOMC's deliberations regarding the monetary growth ranges. At this stage it is impossible to tell whether the weakness of M-1 relative to what would have been expected on the basis of historical relationships among money, income, and interest rates is a transitory phenomenon or one that is likely to persist for some time. The range for M-1 assumes that the recent weakness does in some degree reflect a change in the public's desired allocation of funds among various financial assets that may persist for some time ahead, though not so strongly as in recent months.

The breadth of the specified growth range for M-1 recognizes the considerable uncertainties that currently exist. As subsequent information begins to resolve those uncertainties, the range may be adjusted. In the meantime, M-1 may continue to be a somewhat ambiguous indicator of monetary policy, and it will be especially important to monitor carefully the behavior of other financial variables.

It may be noted that the Federal Reserve is studying possible redefinitions of the monetary aggregates. Among the proposals made in a staff paper published for public comment in the January *Federal Reserve Bulletin* is that M-1 be redefined to encompass ATS, NOW, and other similar transactions accounts.[1] While such a redefinition would not eliminate the need to understand the behavior of the various financial assets, it might produce an aggregate that is more reflective of the public's need for transactions balances in light of ongoing institutional changes.

The behavior of M-1 was not the only puzzling development confronting the FOMC early this month as it considered the appropriate ranges for monetary growth during 1979. There were questions as well regarding the movements of the interest-bearing components of the broader aggregates—especially the time and savings deposits at commercial banks that, along with M-1, constitute M-2. Bank savings deposits have declined appreciably in the past few months, despite the influx of funds to ATS savings accounts. While savings deposit inflows might be expected to exhibit weakness when market interest rates are so far above regulatory ceilings, a large gap had existed for a considerable time and it might have been expected that most of the interest-sensitive funds had already moved into other instruments. It is possible, however, that—as perhaps with demand deposits—the recent further sharp increase in interest rates to historically high levels has prompted many people to seek out alternative assets carrying market yields more aggressively. The M-2 range adopted by the FOMC reflects an expectation that growth of the interest-bearing component will be somewhat stronger in the months ahead, buttressed by further sizable increases in the large-denomination time deposits included in the total and by abatement of the recent unusually large withdrawals of funds from savings deposits.

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[1] "A Proposal for Redefining the Monetary Aggregates," *Federal Reserve Bulletin*, vol. 65 (January 1979), pp. 13-42.

The range for M-3 implies a continued substantial growth of deposits at nonbank thrift institutions. The money market certificates have proven a reliable source of funds. While some institutions have reduced their promotion of MMCs, the certificates have continued to be widely offered at ceiling rates—although there has been some erosion of earnings at thrift institutions since mid-1978 as these relatively high cost deposits have taken a growing share of thrift institution liabilities.

The projected range for bank credit expansion reflects an expectation that loan demands will be less intense in 1979 than in 1978, in line with the prospect of more moderate growth of economic activity. Banks likely will have to continue to rely heavily on large time deposits and other money market liabilities to fund asset growth, and this implies some further decline in traditional measures of institutional liquidity.

The Economic Outlook

Despite the surge in real GNP during the fourth quarter, it appears that underlying economic and financial conditions will lead to a moderation of economic growth in the year ahead. The absence of the sorts of distortions and imbalances that have often precipitated economic downturns in the past indicates that it should be possible to slow the pace of expansion—and thereby relieve inflationary pressures—without prompting a recession. However, any further acceleration of inflation or the occurrence of severe shortages of critical commodities, such as oil, would imperil this outcome.

The monetary restraint applied over the past year by the Federal Reserve is expected increasingly to affect the residential construction sector. Higher costs of credit will cause land developers and builders to put aside marginally profitable projects, and the combination of higher house prices and mortgages rates will lead some families to defer home purchases. Nonetheless, owing to the MMCs and various institutional developments that have broadened the sources of mortgage funds, as well as to the strong underlying demand for shelter, the decline in housing activity should be moderate by comparison with past cycles.

Business fixed investment likely will continue to grow during 1979, but at a slower rate than in 1978. There has been some indication in the past few months of a slowing in the steep upward trend of contracts and orders for plant and equipment, and this is generally consistent with surveys of capital spending plans, which point to smaller gains in outlays this year than last. On the other hand, the climate for investment can be expected to improve as business managers begin to perceive some progress in retarding inflation and become more confident about the sustainability of expansion.

Government spending probably will post only a small increase in real terms this year. Indeed, real federal purchases could decline during the first half due partly to expected repayments of Commodity Credit Corporation loans (which are, in effect, sales of agricultural stocks). At the state and local level, slower growth of federal financial aid and the pressure for tax relief will tend to hold spending increases to small proportions.

Foreign demand for U.S. exports should tend to strengthen during 1979. Economic expansion abroad is generally expected to continue at its recent more rapid pace, and the effects of the substantial depreciation of the dollar on the U.S. trade position should become more evident as the year progresses.

On balance, the aforementioned sectors are likely to provide a reduced impetus to income growth during the year ahead. As a consequence, consumer spending is likely to grow less vigorously. Moreover, the substantial debt repayment burdens faced by many households and generally reduced liquidity of the household sector could prompt households to increase their recent relatively low saving rate. The demand for imports also should moderate this year, not only because of the slower expansion of domestic income and production but also because of the lagged effects of the 1977–78 decline in the international exchange value of the dollar. Inventory investment is likely to be relatively flat in the projected economic environment.

With a slower growth of activity, pressures on productive capacity should ease a bit. Industrial capacity utilization rates, which in the manufacturing sector are not now far below past cyclical peaks, should decline slightly. In labor markets, the growth of employment should moderate from its recent rapid pace. Labor force increases also are likely to diminish, as the growth of the working age population slows slightly and as labor force participation rates—especially for growth—respond to the slackening in economic expansion. Together, the prospective changes in employment and the labor force point to a small increase in the overall unemployment rate during 1979.

The moderation of demand pressures in labor and product markets will tend to slow the advance of wages and prices and thus to reduce the present, unacceptable rate of inflation. However, uncertainties will remain as a result of highly volatile and largely exogenous influences such as farm prices and oil prices. It now appears that food prices will increase somewhat less this year than last. Unfortunately, the price of imported oil will be boosted substantially this year as a result of the decisions taken by the Organization of Petroleum Exporting Countries in December, and the unsettled situation in Iran raises the possibility of even larger price increases.

Setting aside these special factors, a key determinant of the rate of inflation this year will be the performance of unit labor costs. Although there may well be some improvement in productivity in the next few years as the work force tends to become, on average, somewhat older and more experienced, there is little reason to expect any marked acceleration of productivity growth during 1979. Consequently, if there is to be a noticeable slowing in the rise of unit labor costs, compensation gains will have to moderate significantly.

Toward this end, the administration's wage-price program can play an important role. By providing a standard for constructive behavior on the part of both business and labor, the program can be a vehicle for helping to brake the wage-price spiral. Broad compliance with the administration's standards would make a significant contribution to the slowing of inflation. Of course, the wage-price program can be successful only if there is complementary restraint in monetary and fiscal policy—to contain aggregate demand pressures and to assure the public of the government's commitment to the restoration of price stability.

The Short-Term Goals in the Economic Report of the President

As specified by the Full Employment and Balanced Growth Act, the President's *Economic Report*, transmitted to the Congress last month, lays out a detailed set of economic goals for 1979 and 1980. The discussion of the act's requirements points out that the administration's "short-term goals for [1979] and 1980 represent a forecast of how the economy will respond over the next 2 years not only to the budgetary policies proposed by the President for fiscal 1979 and 1980 but to the anti-inflation program announced on October 24."[2]

The administration's goals, along with the comparable figures for 1978, are summarized in the following table:

Item	Level		
	1978 Q4	1979 Q4	1980 Q4
Employment (millions)	95.6	97.5	99.5
Unemployment rate (percent)	5.8	6.2	6.2
	Percentage change, Q4 to Q4		
Consumer prices	8.9	7.5	6.4
Real GNP	4.3	2.2	3.2
Real disposable income	3.3	2.8	2.3
Productivity	.2	.4	1.1

The Relationship of the Federal Reserve's Plans to the Administration's Goals

The Relationship of the Federal Reserve's Monetary Growth Ranges to the Short-Term Goals in the Economic Report

The Full Employment and Balanced Growth Act directs the Federal Reserve to assess the relationship of its plans for monetary growth to the short-term goals in the *Economic Report*. This task is complicated by the fact that goals are specified for a variety of economic variables, and monetary policy does not affect each of them separately. Monetary policy has its most direct short-term impact on aggregate nominal GNP. Within the context of a particular nominal GNP outcome, the mix of real output gains and inflation, the growth of employment, and the movements in other variables are influenced importantly by conditions at the beginning of the period, by other governmental policies, by the structural and behavioral relationships in the economy, and by developments outside the domestic economy.

As required by the Full Employment and Balanced Growth Act, the Federal Reserve at this time has established ranges for monetary growth through the end of 1979. It will reassess these and report preliminary ranges for 1980 in July, unless developments in the months ahead necessitate earlier reconsideration. At this juncture, the monetary growth ranges and the administration's 1979 economic goals appear reasonably consistent. The administration's forecast implies an expansion in nominal GNP of around 9¾ percent from the fourth quarter of 1978 to the fourth quarter of 1979. The midpoint of the FOMC's growth range for M-1 is about 6 percent after adjustment for the expected impact of shifts of funds to ATS and NOW accounts. This suggests an increase of M-1 velocity on the order of 3½ percent, a figure somewhat above the longer-term trend, but reasonable in light of the lagged effects of the recent substantial increases in interest rates and the downward shift in money demand that has been occurring. The upper and lower boundaries of the M-1 range, of course, allow for the possibility of smaller or faster increases in velocity over the year.

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[2] *Economic Report of the President, January 1979* (Government Printing Office, 1979), p. 108.

The output-price mix in the administration's 1979 forecast appears attainable if there is reasonable compliance with the wage-price standards and as long as there are no untoward shocks such as an unanticipated surge in food or energy prices. The employment and productivity forecasts appear consistent with the output goal, and the unemployment rate forecast seems consistent with reasonable assumptions about labor force growth in the projected economic environment.

Considerably greater uncertainties naturally are encountered with respect to the administration's goals for 1980, a period that is still rather distant. Nothing in the monetary or economic projections for 1979 suggests to us that conditions prevailing at year-end will bar the achievement of the administration's forecasted 9½ percent growth in nominal GNP during 1980. At this time, however, the achievement of the output-price mix projected for 1980 appears to be more difficult.

The administration has forecast a marked acceleration of growth in real GNP in 1980 and a marked deceleration of inflation. Such an outcome is certainly attainable, but given the projected levels of resource utilization—with the unemployment rate remaining around 6¼ percent—this result will require considerable progress in the lowering of inflation expectations. There will have to be broad conformance to the administration's wage-price standards, and the government will have to give careful attention to the potential cost-raising impacts of its regulatory and legislative actions. Continued budgetary restraint also will be necessary, both to build confidence in the government's commitment to avoid fiscal excesses and to minimize pressures on the capital markets.

Recognizing the risks and uncertainties that currently exist, the administration's 1980 forecast can serve as an appropriate goal for the Congress as it considers its budgetary plan for fiscal 1980. If inflationary pressures subsequently should prove stronger than the administration has projected, then the prudent course for government policy would be to exercise a substantial degree of restraint even if it risks less real growth in 1980 than the 3.2 percent goal. Such a policy would lay the foundation for balanced economic growth over the years to come and would help to maintain the integrity of the dollar.

REPORT ON JULY 17, 1979

The performance of the economy this year has been distinctly unsatisfactory. Starting from a base of rapid inflation and the lagged effects of the 1977–78 dollar depreciation, a series of unexpected events this year has disrupted economic activity and intensified inflationary pressures. These events have included labor disputes, severe weather, and adverse agricultural supply conditions, but the most disturbing development, in terms of its implications for future economic performance, has been an enormous increase in the price of imported oil. The adjustment to this oil price shock poses major problems for governmental policy and represents a serious setback to progress toward the longer-range goals enunciated by the Full Employment and Balanced Growth Act.

Increased energy costs have greatly aggravated our inflation problem. In February, when the Board submitted its first report to the Congress under the Humphrey-Hawkins Act, it was anticipated that oil prices would rise moderately this year, entailing some small upward pressure on the general level of prices. However, the developments since then—including the effects of the Iranian revolution and the latest decisions by the Organization of Petroleum Exporting Countries—are generating major increases in the prices of imported oil and, consequently, in the prices of other energy sources as well.

The inflationary effects of the increases in energy prices could, in principle, be offset if other prices on average declined or at least rose less then they otherwise would have. There will be some tendency in this direction as the diversion of a larger share of spendable income to energy results in a reduction in demand for other goods and services. In recent years, however, nominal wages and prices have not generally exhibited much flexibility in a downward direction; rather, relative price adjustments typically have occurred in the context of an overall rise in the average level of prices as economic units attempted to avoid losses of real income.

It also must be recognized that the rise in the relative price of imported oil involves a transfer of real income and wealth from the U.S. public to foreign oil producers. This loss will, in turn, have at least temporarily depressing effects on domestic economic activity as the demand by foreign countries for U.S. exports expands only with a lag.

Thus, over the next year or two it appears that exogenous forces will be causing both intensified inflationary pressures and downward adjustments in the demand for goods and services. Clearly, the problems confronting monetary policy, and macroeconomic policy generally, have been made much more difficult. If monetary policy encourages a more rapid expansion of money and credit in an attempt to strengthen aggregate demand, it risks building even greater inflation into the economic system through the aggravation of the price-wage-price spiral. On the other hand, if no account is taken of added upward price pressures in the formulation of policy, the risks are increased of deepening or lengthening the transitional downward adjustments in real economic activity that now appear in train.

The Federal Reserve remains firmly resolved to direct its policies toward a reduction in the rate of inflation. But in the current circumstances, a combination of added inflationary pressures, a slowing of economic activity, and a probable increase in unemployment may delay progress toward price stability. This problem highlights the need to solve some of the major structural defects in our economy. It is important that we begin to break down the barriers, both private and governmental, that inhibit innovation and competition and thereby contribute to the inflationary bias of the economy. We must ensure that our system of taxation does not discourage the saving and capital investment necessary to reverse the deterioration of productivity performance observed in recent years.

And it is absolutely essential that this nation develop an energy program that reduces its reliance on foreign sources of energy.

Recent Economic and Financial Developments

Economic Activity During the First Half of 1979

Official Commerce Department data for the second quarter of this year have yet to become available, but it appears likely that they will indicate that real gross national product declined somewhat after advancing only marginally in the first quarter. The sluggishness of overall economic activity thus far in 1979 stands in marked contrast to the gain of 4¼ percent in real GNP in 1978. Although the events of the first half do not in themselves compel a conclusion that the economy has entered a recession, the pause in growth does represent a signficant interruption of the relatively long cyclical upswing that began early in 1975.

The sluggishness of economic activity since the beginning of the year is partly a consequence of the rising inflationary pressures of 1978, but it is also traceable in considerable measure to special exogenous factors—as distinguished from such problems as widespread inventory overhangs or other fundamental imbalances or distortions that have characterized the terminal stages of previous cyclical expansions. During January and February, production in many parts of the country was disrupted by unusually inclement weather; the construction industries were especially hard hit, but other sectors also were affected. In the early spring, labor contract disputes in the trucking, airline, and rubber industries interfered with activity in many areas of the economy. However, a more pervasive—and less transitory—influence on the course of the economy this year has been the sharp rise in energy and food prices. The resultant acceleration of inflation has had a serious impact on real disposable personal income and has had a broadly adverse effect on consumer spending attitudes.

Personal Consumption Expenditures. Personal consumption expenditures account for almost two-thirds of GNP, and their weakness during the past two quarters has been an important element in the flatness of overall economic activity. Some softness in consumer demand was not unexpected following the surge in spending during the final months of 1978. However, retail sales in real terms exhibited a clear downward trend through the first six months of this year, with the June level sharply depressed by a drop in auto sales. Rising gasoline prices and uncertainty about gas supplies initially had a mixed impact on auto sales: sales of large, fuel-inefficient cars plunged, while sales of smaller domestic and foreign cars recorded an offsetting increase. Most recently, however, the weakness in auto sales has broadened; this may in part reflect supply constraints as domestic makers shift facilities to the manufacture of small cars, but there appears to have been a general falloff in demand during June.

The weakness in consumer spending has extended beyond the market for motor vehicles, and it appears symptomatic of broader pressures on household finances. The personal saving rate reached historically low levels last year, so that a further rise in the spending propensities of households seemed unlikely. Moreover, the record indebtedness and debt repayment burdens of the household sector suggested that consumers might manifest, on the whole, a more cautious spending behavior. These influences have been substantially reinforced this year by the effects of accelerated inflation on the real disposable income of households. The budgets of many families have been squeezed by the upsurge in the prices of food, fuel, and other basic necessities. This has increased their uneasiness about their personal financial positions and contributed to a noticeable deterioration in consumer sentiment, as measured by most surveys.

Residential Construction. As noted above, adverse weather depressed building activity during the opening months of 1979. Private housing starts, which had consistently run at an annual rate of just over 2 million units since a similar weather-related disruption the previous winter, fell to a 1½ million rate in January and February. However, as construction picked up again in subsequent months, the rate of housing starts remained below the 1978 pace, averaging about 1¾ million units in the March–May period. Thus, there has been a moderate, but significant, downturn in residential building since the end of 1978.

Several fundamental economic and demographic factors have continued to bolster the demand for housing—especially single-family dwellings and condominium apartments. One of these is the widespread view, based in large part on the actual experience of the past several years, that houses are a good hedge against inflation and therefore an attractive investment apart from the shelter services they provide. Another is the movement of a large portion of our population into the age group in which the rate of initial home purchases historically has been relatively high.

Nonetheless, other underlying supply and demand influences have acted to constrain the construction of new housing units. The rise in interest rates and the general tightening of credit markets over the past year have been particularly important factors. Homebuilders have found that lenders are charging substantially higher rates for land development and construction credit and are showing greater selectivity in the projects they will finance. At the same time, potential builders and homebuyers have been affected by increasingly stringent terms on mortgage loans and, in some localities, by shortages of mortgage credit caused by usury ceilings. The combination of inflated house prices and record mortgage rates implies costs of homeownership that bulk large relative to the current incomes of many families. This fact has deterred some potential homebuyers and caused lending institutions to reject some credit applications. It also has given impetus to the development and use of graduated-payment mortgages, which are designed to alleviate the cash-flow problems encountered in the early years of the traditional level-payment loan in an inflationary environment; however, these instruments have not thus far attained an important role in the mortgage market.

In recent months, localized shortages of gasoline and generally uncertain prospects about future fuel prices and supplies likely have been another factor deterring home purchase and prompting a reassessment of building plans. Still, unit sales of new and existing single-family houses have declined only moderately this year from the record pace of 1978. Stocks of unsold single-family units, while perhaps less comfortable than a few months ago when demand was stronger, do not appear to be a significant depressant on new building activity. Nor, in major contrast to the last—and severe—housing cycle, is there a substantial overhang of multifamily rental and condominium units for rent or sale.

Business Investment. Business firms have continued to pursue generally cautious spending policies, but their investment in inventories and fixed capital nevertheless appears to have expanded significantly in real terms during the first half. Despite this further advance in business spending, there is little evidence to date of the development of broad imbalances between stocks or productive capacity and final sales that might seriously impede the resumption of economic expansion.

The surge in final sales in the last quarter of 1978 drew down stocks in many lines to the point where it seemed quite likely that some rebound in inventory investment would occur in ensuing months. However, the book value of business inventories increased very rapidly in the early part of 1979, causing some concern that the unexpected strength of demand at year-end and the acceleration of inflation might have prompted a speculative hoarding of commodities—perhaps reminiscent of 1973–74. These concerns abated as it became clear that the accumulation of inventories was relatively well balanced across sectors and across levels of processing and that much of the acceleration in the rise of book values reflected nothing more than the replacement of merchandise bought earlier at lower prices with stocks acquired at current, inflated prices. GNP accounts data for the first quarter in fact indicate that, while there was an appreciable pickup in real inventory investment, the rate of accumulation remained moderate.

Inventory data for the second quarter are fragmentary. Book-value figures showed exceptionally high rates of accumulation in April—especially at manufacturing concerns—but this evidently was attributable in part to delays in shipments caused by the labor dispute in the trucking industry. Inventory growth, again on a book-value basis, slowed in May; however, it appears likely that real inventory investment for the second quarter as a whole was considerably above the pace of the first quarter.

Nevertheless, inventories appear generally to have remained in reasonably comfortable alignment with sales. There are, of course, exceptions, the most notable being in the motor vehicle sector. With the drop in demand for large cars this spring, dealers' stocks became very sizable in relation to the current pace of sales. Stocks of smaller cars, in contrast, have been very lean in recent months, and customers desiring particular models and features sometimes have encountered long delivery lags. On balance, the aggregate ratio of real business inventories to real sales in the first quarter was well in line with recent norms, but there probably was some deterioration in the picture during the second quarter.

Business spending for new plant and equipment rose strongly during the first quarter, providing substantial impetus to overall economic activity; however, available evidence suggests that some decline occurred during the second quarter. The first-quarter surge reflected a sharp rise in equipment purchases. Outlays for transportation equipment—especially airplanes and automobiles—accounted for a good deal of the strength. During the spring, outlays for equipment apparently retraced their earlier advance, owing in part to delays in shipments caused by the labor disputes in trucking. In contrast, spending on nonresidential structures lagged in the first quarter, as the adverse weather conditions interfered with building activity, but then snapped back smartly in the spring.

An important factor bolstering demands for fixed capital has been the higher rates of industrial capacity utilization that have prevailed since the latter part of 1978. Slower growth of industrial production has resulted in a slight decline in utilization rates, but the rates have remained at levels that have been associated in the past with periods of strong investment demand. Despite deep cutbacks in auto production, capacity utilization in manufacturing last month averaged about 85 percent—only 3 percentage points below the peak of 1973 and a fairly high level historically. Capacity utilization rates in the materials-producing industries are not, on average, so close to the 1973 peaks. However, that period was marked by extraordinary pressures on production facilities caused by a worldwide boom in demand for basic commodities, and by normal standards, operating rates currently are quite high in some materials sectors.

Government Spending. Budgetary policy at both the federal and state and local levels of government has continued to be characterized by restraint in spending. Indeed, government outlays for goods and services declined in real terms during the first half of 1979.

Federal purchases had fallen slightly, after adjustment for inflation, during 1978, and declines were recorded in each of the first two quarters of this year. Total federal expenditures—including transfer payments as well as outlays for goods and services—have been running just a bit higher in nominal terms than had been anticipated in the administration's budget plans. However, the impact of inflation on incomes has resulted in considerably stronger tax receipts than projected, so the budget deficit has been substantially smaller than expected.

At the state and local level, weather-related curtailments of construction reduced spending in the first quarter. However, the subsequent rebound in building activity was sluggish and may be indicative of a tendency to defer further capital expenditures following a surge last year. Moreover, states and localities also have been limiting spending by holding down employment: the number of workers on their payrolls in June was about the same as one year earlier.

The growth of the economy after 1975, combined with tax-rate increases enacted earlier, had led to the development of sizable surpluses in the budgets of many states. This pattern was reversed in the past year. Numerous tax cuts were passed in 1978, and as a result personal tax receipts were 5 percent lower in the first quarter of this year than in the same period last year—even though the tax base had increased 16 percent. With nominal expenditures therefore rising relative to receipts, the operating surplus of state and local governments fell to $3.8 billion, at an annual rate, in the first quarter; it appears that the operating budgets may have moved into slight deficit in the second quarter.

International Trade. The large decline in the exchange value of the dollar in 1977 and 1978 has enhanced foreign demands for U.S. exports. This, along with a relative strengthening of economic expansion abroad, has brought about a distinct trend of improvement in the U.S. trade position. The nation's merchandise trade deficit—although quite variable from month to month—has been considerably smaller this year than on average during 1978. Moreover, the current-account balance edged into modest surplus in the first quarter for the first time since 1976 as receipts from overseas investments remained strong.

Total exports advanced further in real terms during the first quarter despite a falloff in shipments of agricultural products. The impact of the 1977–78 dollar depreciation was also evident in continued relatively slow growth of non-oil imports. On the other hand, the volume of oil imports averaged about 9.3 million barrels per day (MMB/d) during the first three months of the year as compared with an average of 8.7 MMB/d during 1978. In April and May the trade deficit widened as exports remained at about their first-quarter level while the value of both oil and non-oil imports advanced. A fall in the quantity of oil imported to 8.7 MMB/d in April and May was more than offset by price changes that began to reflect the OPEC price increases and surcharges. The unit value of imported oil in May was 22 percent above its level in the fourth quarter of 1978.

The improvement in the U.S. trade and current accounts this year has helped to bolster the private demand for dollars in foreign exchange markets. The dollar rose almost 5 percent, on a trade-weighted average against other major currencies, during the first five months of 1979—even while the United States and other governments unwound the heavy official intervention of late last year. Over the past month, however, the dollar has come under downward pressure; despite official support, it has lost much of the earlier gain. A relative firming of money market conditions abroad has been a factor in this recent weakness but is not likely in itself to be a full explanation. Foreign exchange market participants seem to have been questioning whether the United States will be able to deal successfully with its inflation problem, particularly in light of the recent oil price jolt.

Employment and Unemployment

Almost four years of exceptionally rapid growth in employment had, by the end of 1978, given rise to considerable tautness in labor markets.

Although businesses reportedly were encountering increasing difficulty in finding workers with the desired experience and skills at prevailing wage rates, the overall unemployment rate, at just under 6 percent, was well above past cyclical lows. This seeming paradox reflects in part longer-run changes in the composition of the labor force and in the output mix of the economy; in addition, the increased availability of unemployment compensation and other income maintenance programs may have altered the incentives to seek or accept employment.

Despite a leveling off in production during the first quarter of the year, monthly increases in payroll employment averaged 330,000—well above the average gain of 280,000 per month during 1978. Gains in the manufacturing industry were quite large, and the average factory workweek remained at a high 40¾ hours. Some easing in labor demands has become perceptible since March, however, with employment gains averaging only one-third of their first-quarter pace. Manufacturers have been reducing employment levels by about 35,000 each month—with the auto industry accounting for the bulk of the decline—and the average workweek has dropped to about 40 hours due to a cutback in overtime. Outside of manufacturing, hiring has continued in recent months, albeit at a reduced pace. Still, the unemployment rate has changed little since year-end, and such indicators as the average duration of unemployment and labor turnover rates have remained at levels typical of fairly tight labor markets.

Wages, Productivity, and Prices

The pace of inflation has accelerated markedly this year. The consumer price index rose at an annual rate of 13½ percent through May compared with the increase of 9 percent over the course of 1978. There has been a comparable stepup in the advance of prices at the producer level. Although the relatively high level of resource utilization has been a factor sustaining the momentum of inflation, supply developments specific to the food and energy sectors have accounted for much of the acceleration this year in inflation.

Food prices played a substantial role in the increase in inflation that occurred last year, and agricultural supply developments have continued to be unfavorable. In particular, beef production has remained on a downtrend, leading to sharp increases in meat prices. In addition to raising farm prices, the rapid increase in costs of nonfarm inputs involved in processing and marketing has contributed to the acceleration of food price inflation. The further rise of the federal minimum wage, for example, was an important ingredient in the faster increase of prices for restaurant meals in the first half.

Energy prices have risen dramatically this year. Enormous increases in the prices charged by the OPEC cartel, occurring against a backdrop of significant worldwide pressures of demand on available supply, contributed to a 37 percent annual rate of increase in the energy component of the consumer price index during the first five months of 1979. The rise in petroleum fuel and feedstock prices has in addition intensified cost pressures across a broad range of U.S.industries.

The acceleration in the rise of other prices has been less striking than that for food and energy, but it has been appreciable. Exclusive of food and energy items, the consumer price index rose at an annual rate of 10 percent through May, 1½ percentage points faster than the average pace throughout 1978.

Pressures placed on prices of final products by rising materials costs have played some role in the broad pickup in inflation. Prices of nonferrous metals and of other actively traded nonfood commodities rose sharply early in the year when the year-end strength of the economy apparently led to some upward revision in expectations of future production levels and fears of consequent commodity shortages. In subsequent months, however, prices of many basic nonenergy commodities weakened as the slackening of economic activity became evident.

In addition to materials prices, labor costs have been a source of pressure on prices this year. The rise in wage rates generally does not appear to have accelerated, and surveys conducted by the Council on Wage and Price Stability indicate broad compliance with its wage standard, especially among large firms. However, total labor costs were boosted by enlarged employer contributions for social security and unemployment insurance, and compensation per hour (including private fringe benefits) in the nonfarm sector rose at a 10¼ percent annual rate in the first quarter of the year.

Meanwhile, output per hour dropped markedly in the first quarter, so that the unit labor costs of nonfarm businesses increased at an annual rate of more than 15 percent. Labor productivity apparently declined again in the second quarter, and while the rise in unit labor costs likely was not quite so rapid as in the first three months of the year, it probably was fast enough to raise the advance in the first half of 1979 to a rate exceeded only in 1974.

Financial Developments

Growth of the monetary aggregates was considerably slower during the first half of 1979 than in 1978. At midyear, all of the major monetary measures—M-1, M-2, and M-3—were within the expected ranges of expansion reported by the Federal Reserve to the Congress in February. Commercial bank credit at midyear stood slightly above the path implied by its projected growth range, but the pace of overall credit expansion in the economy had moderated appreciably. Although businesses stepped up their borrowing somewhat during the first half of the year, there were more than offsetting declines in borrowing by other nonfinancial sectors.

Interest Rates. The general level of interest rates on market securities has changed relatively little since the beginning of the year after a marked rise during 1978. The federal funds rate—established in trading of immediately available funds on an overnight basis—remained around 10 percent until late April, when it edged upward about one-quarter percentage point as the Federal Reserve moved to restrict bank reserve availability somewhat further in light of a surge in the monetary aggregates. Despite the small increase in the federal funds rate, other short-term market rates generally have declined somewhat on balance since December. This appears to be primarily a reflection of changing expectations about future interest rate movements as economic activity gave evidence of weakening.

In long-term securities markets, bond yields reached new cyclical highs during the first half, but retraced much of their advance in the latter part of the spring as many investors became convinced that the peak in money market rates had been reached. Mortgage interest rates have continued to rise, however, reaching record levels and prompting liberalization of usury ceilings in many states in order to sustain lending activity.

Monetary Aggregates. After expanding rapidly earlier in 1978, M-1—demand deposits and currency—leveled off in the fourth quarter and continued virtually flat through the first quarter of this year. Growth in this monetary aggregate resumed in the spring, but the rise over the first half of 1979 was at only a 2.7 percent annual rate—considerably slower than the increases of 7.9 percent and 7.2 percent registered in 1977 and 1978 respectively. With nominal gross national product increasing at about a 9 percent rate thus far this year, the very moderate expansion of M-1 represents a substantial shortfall from what might have been expected on the basis of historical relations among money, GNP, and interest rates.

As was noted in the Board's February report to the Congress, some weakness in the public's demand for M-1 was anticipated because of the introduction last November of automatic transfer services (ATS) nationwide and of negotiable order of wthdrawal accounts in New York State. The Board staff had projected that transfers from demand deposits to savings accounts associated with these innovations might reduce M-1 growth by roughly 3 percentage points over the year ending in the fourth quarter of 1979. The impact of such transfers on M-1 growth was about that much early in the year, but it apparently has dropped off in recent months. Over the past two quarters it appears that the impact of ATS and NOWs on M-1 growth has been about 2¼ percent, at an annual rate.

Even after taking account of ATS-NOW effects, the demand for M-1 was unusually weak in the past half year, especially in the first quarter. It appears that, again as suggested in the February report, the high level of interest rates reached in late 1978 prompted greater-than-normal efforts to economize on non-interest-earning cash balances. Individuals evidently have shifted demand balances into a variety of interest-bearing assets, including small-denomination time deposits, Treasury securities, and shares in money market mutual funds. The growth of the money market funds this year has been quite striking: over the past six months, the total assets of these funds rose from less than $11 billion to almost $26 billion. While these funds are an imperfect substitute for checking accounts for transactional purposes, they have provided many individuals with a high-yielding liquid asset that may be purchased in small denominations.

The relatively high level of interest rates this year has also had an appreciable impact on the interest-bearing component of M-2—that is, commercial bank time and savings deposits other than large certificates of deposit. Deposits subject to fixed interest rate ceilings have been weak since last fall. Inflows to six-month money market certificates (MMCs) provided an offset to this weakness in the fall and winter. With a change in regulations in mid-March that eliminated the differential of one-quarter of a percentage point between MMC ceilings at thrift institutions and commercial banks when the six-month Treasury bill rate exceeds 9 percent, MMC growth at banks accelerated and provided the impetus for a pickup in the expansion of the time and savings deposit component of M-2. Over the first half as a whole, this component expanded at a 7 percent annual rate and brought M-2 growth to a 5.2 percent rate, substantially below the 8.4 percent average rate of 1978.

Growth of M-3 also has moderated in recent quarters, averaging 6¼ percent, at an annual rate, during the first half. This deceleration was partly a reflection of the slower growth of the narrower monetary aggregates, but reduced deposit inflows at nonbank thrift institutions also played a role. The slowing in deposit growth at thrift institutions was especially noticeable after mid-March when a share of the MMC market was lost to commercial banks, but inflows in the second quarter still exceeded the very low rates of past periods when high market interest rates caused serious disintermediation. Savings and loan associations made increased use of large-denomination time deposits, which are not subject to regulatory rate ceilings, to offset some of the weakness in other accounts.

Credit Flows. Net funds raised in credit markets by nonfinancial sectors of the economy during the first half totaled about $355 billion, at an annual rate, according to preliminary estimates. This is well below the $393 billion figure for 1978 and reflects the combined impacts of monetary restraint and a number of other factors.

One of these other factors was the diminished size of the federal budget deficit. With a very large year-end 1978 cash balance further reducing the Treasury's needs for new money during the first half, federal government borrowing fell off sharply from the 1978 pace. In contrast with the pattern in late 1978, when they effectively financed the Treasury's deficit with the proceeds of dollar-support operations, foreign central banks sold a large volume of Treasury securities in the first half. A part of the sizable private capital inflow to the United States during the first half was channeled through the Eurodollar market to the U.S. banking system, which acquired a substantial volume of Treasury securities. Households were important buyers of Treasury securities, as they responded to the enlarged gap between rates on such instruments and those available on deposits subject to regulatory ceilings.

State and local governments have borrowed at a reduced pace in 1979. This decline reflects the absence of advance refundings since last August, when more restrictive regulations were promulgated by the Internal Revenue Service. Tax-exempt bond issuance for new capital in the first half was maintained at about the 1978 level, owing largely to a sharp increase in sales of revenue bonds for mortgage financing purposes; the pace of such housing-related financing slowed markedly in the second quarter, however, as a consequence of congressional proposals to curtail the use of tax-exempt bonds to fund low-rate, single-family mortgages. Casualty insurance companies and commercial banks have absorbed the bulk of tax-exempted bonds sold this year.

Household borrowing in the consumer installment and mortgage credit markets has leveled off this year. Although interest rates on consumer loans have risen during the past year, the moderation in growth of installment debt appears to be primarily a consequence of other factors tending to reduce consumer spending. The flattening in mortgage flows, on the other hand, does appear more directly a consequence of rising interest rates and the tightening of mortgage credit supplies.

On the demand side, households have deferred home purchases or scaled down expenditure or borrowing plans in light of the higher cost of mortgage credit. On the supply side, even when usury ceilings have not been a constraint, depositary institutions have pursued more cautious loan commitment policies because of concerns about current or prospective liquidity pressures. Thrift institutions have reduced their mortgage lending considerably this year as their deposit flows have diminished; although the aggregate liquidity ratio of savings and loan associations has remained well above the regulatory requirement, that liquidity cushion has shrunk somewhat and the associations have borrowed heavily from Federal Home Loan Banks and other sources. Commercial banks, too, have expanded their residential mortgage portfolios at a slower pace this year, but there have been partial offsets to reduced lending by depositary institutions in the form of credit flows from state and local governments, life insurance companies, and federally sponsored agencies.

In the nonfinancial business sector, the growth of outlays for inventories and fixed capital has outstripped that of internally generated funds, and firms have increased their borrowing substantially. An increased share of the credit flow to business has been accounted for by commercial banks, as many bigger firms have preferred—at current interest rates —short- or intermediate-term bank loans to long-term bond issues with lengthy call protection. Commercial mortgage flows have remained large, however, in reflection of the strength in nonresidential construction activity. Life insurance companies have provided a large portion of these mortgage loans and, with pension funds, have absorbed the bulk of a reduced volume of bond issues. Issuance of commercial paper was an increased source of short-term credit for businesses in the first half, and finance company business loans continued to grow rapidly with much of the credit being extended to automobile dealers to finance inventories.

Foreigners, who had borrowed in U.S. credit markets when the dollar was weak in 1978, apparently did not expand their debt during the first half of 1979. This change was a significant element in the overall decline in funds raised by nonfinancial sectors.

Financial sectors increased their borrowing in credit markets during the first half. Government-sponsored credit agencies stepped up security issuance to finance assistance to the residential mortgage market. Commercial banking firms and finance companies sold substantial volumes of commercial paper and of bonds, including a number of floating-rate issues that offered investors a hedge against future interest rate fluctuations. Savings and loan associations, after receiving approval from the Federal Home Loan Bank Board, issued commercial paper for the first time; toward midyear there were also a number of mortgage-backed bond issues by savings and loan associations.

Objectives and Plans of the Federal Reserve

Outlook for Monetary Growth

In February the Federal Reserve reported to the Congress on the growth in the monetary aggregates that it expected would occur during the current calendar year. Expressed as ranges, and measured from the fourth quarter of 1978 to the fourth quarter of 1979, the increases indicated were: for M-1, 1½ to 4½ percent; for M-2, 5 to 8 percent; for M-3, 6 to 9 percent. The range for M-1 reflected an expectation that shifts of funds from demand deposits to newly authorized ATS and NOW accounts would reduce M-1 growth by about 3 percentage points. In addition, bank credit was projected to expand between 7½ and 10½ percent.

At its most recent meeting, the Federal Open Market Committee reassessed the ranges for monetary expansion in 1979 and formulated preliminary monetary ranges for 1980. With respect to 1979, the Committee decided that it was appropriate to retain the previous established ranges for the aggregates. In reaching this decision, particular attention was focused on the uncertainties surrounding the behavior of M-1. As was noted earlier, the estimated impact of ATS and NOW accounts on M-1 expansion has been somewhat smaller to date than had been expected when the range was initially adopted. However, the future extent of shifts to these accounts cannot be predicted with precision, especially in light of the April court decision barring ATS and certain other payments services as of January 1, 1980. Thus, while the Committee retained its original range for M-1, it expected growth to vary in relation to the range to the extent that the actual ATS-NOW impact deviates from the figure of 3 percentage points projected earlier.

Even greater uncertainties faced the Committee in its consideration of monetary growth ranges for 1980. Apart from the question of possible judicial or legislative action that might affect the menu of transactions accounts available to the public, the economic circumstances and financial requirements of a period extending 18 months into the future obviously cannot be foreseen with much confidence. The Committee tentatively decided that the ranges for 1980 should be the same as those for 1979, with the understanding that adjustments might be necessary in response to legal or legislative developments affecting M-1 and, more generally, in light of emerging economic conditions. In any event, it was recognized that the current reexamination of the definitions of the monetary aggregates, being undertaken in light of the major institutional changes that have occurred in the payments system, might lead in the near future to a new and improved set of money stock measures.

The ranges for the broader monetary aggregates, M-2 and M-3, allow for continued moderate growth of the interest-bearing components of those aggregates. In past periods of high market interest rates, inflows of deposits subject to regulatory interest rate ceilings weakened markedly; investors "disintermediated," shifting their funds from banks and thrift institutions into higher-yielding market securities. In the past year, however, inflows to such accounts—though smaller than in 1975–77—have been fairly well maintained. The six-month money market certificate, with a rate linked to Treasury bill yields, has permitted the depositary institutions to compete successfully for savings against money market mutual funds and other instruments.

The growth ranges for the broader monetary aggregates imply that the depositary institutions will experience adequate inflows of lendable funds over the remainder of 1979 and in 1980. The projections for bank credit reflect an expectation that loan demands at commercial banks will begin to moderate in the months ahead. Business loan demands, in particular, should diminish, with the corporate financing gap likely narrowing and firms probably funding short-term debts in longer-term credit markets.

The monetary ranges established by the FOMC are consistent with a policy of gradual reduction in rates of increase of the monetary aggregates in order to curb inflation. Growth in the aggregates slowed in 1978, and a further deceleration should occur this year. A further deceleration in M-1 is likely to develop even in the absence of any shifting of funds from demand deposits to ATS savings and NOW accounts. The ranges tentatively adopted for 1980 would permit continued slowing in monetary expansion. However, there is considerable variability over time in the behavior of the monetary aggregates, owing in part to financial innovations and to changes in the asset preferences of the public. Since satisfactory economic performance remains the basic objective of the Federal Reserve, monetary policy, from time to time, may have to permit growth rates in the aggregates that temporarily interrupt the downward trend.

Outlook for the Economy

As noted in the introduction, the economy faces a difficult adjustment to this year's oil price increases, which are aggravating inflationary pressures and intensifying forces likely to depress aggregate demand. It now appears that economic activity may well decline somewhat over the next few quarters, before turning upward in 1980.

In the near term, real disposable income is likely to show no more than modest gains, and consumers probably will spend cautiously. Business spending may decline in real terms, reflecting the correction of inventory imbalances—particularly in the auto industry—and a mild retrenchment in fixed investment occasioned by the sluggishness of consumer demand. Housing construction activity can be expected to decline somewhat further this year in response to the recent tightening of credit conditions and to the weakness in income flows. Export demand should, however, tend to support activity.

In this period, industrial production and employment are likely to edge downward. The resulting easing of demands on productive resources should help to contain inflation. Pressures on credit markets may abate and lay the groundwork for an upturn in homebuilding in 1980.

Moderate growth in real GNP should resume next year as the initial effects of the oil shock abate and consumers begin to expand their spending. The completion of the inventory correction should lead to a resumption in the growth of orders and production. Employment growth would pick up in this environment, but it seems probable that the pace of hiring will not be strong enough to cut into unemployment. Inflation should edge lower, though progress may be quite gradual owing to the strong upward momentum of unit labor costs, the continuing relatively tight supplies of some agricultural commodities, and the further adjustment of the system to higher energy costs.

The economic outlook currently is obscured by exceptional uncertainties, and the range of possible outcomes appears quite wide. However, in order to improve understanding of the monetary objectives, an economic projection representing the consensus of the Board members at this time has been summarized in the table below.

Item	Actual	Projections	
	1978	1979	1980
Percentage change, Q4 to Q4			
Nominal GNP	13.1	8 to 10	8½ to 11½
Real GNP	4.4	−2 to −½	−½ to 2
Implicit price deflator	8.3	9½ to 11	8½ to 10½
Average level, Q4			
Unemployment rate (percent)	5.8	6¼ to 7	6¾ to 8½

Relationship of the Federal Reserve's Plans to the Administration's Goals

The Administration's Short-Term Goals

The administration has recently announced its forecast of key economic variables in association with the midyear budget update.[1] This forecast (shown in the following table) assumes no major new fiscal initiatives and contains some significant changes from the figures in the January *Economic Report of the President*. In particular, real economic growth through 1980 has been reduced and inflation has been raised.

The Administration's Goals and the Federal Reserve's Plans for Monetary Growth

The monetary ranges set by the Federal Reserve should be adequate to finance the amount of spending in current dollars projected by the ad-

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[1] The *Economic Report of the President, January 1979* (Government Printing Office, 1979), equated the 1979–80 forecast with short-run goals.

Item	1979	1980
Percentage change, Q4 to Q4		
Nominal GNP	9.2	10.3
Real GNP	−.5	2.6
Implicit price deflator	9.8	8.1
Average level, Q4		
Unemployment rate (percent)	6.6	6.9

ministration. However, the administration's forecast does seem to envision a somewhat more favorable combination of real output and inflation than that suggested by the Board's consensus projection. The actual price-output mix will be determined primarily by supply conditions and by other structural or behavioral characteristics of the economy. These relationships are not known with certainty, of course, and thus many different price-output combinations must be viewed as possible for given rates of monetary growth.

Monetary growth rates are much more closely related in the short run to nominal GNP than they are to the division of nominal GNP between output and prices. The tradeoff between output and prices might be improved, however, through the use of other policy tools. Governmental action to eliminate regulatory or market impediments to price competition could be helpful in tempering inflationary pressures. So, too, could a continuing program of voluntary wage-price guidelines, which may help in restraining the anticipatory actions that have made the wage-price spiral so intractable. The nation's ability to avoid an escalation of inflation over the next year or so—without serious recession—will depend in considerable degree on whether a means is found to overcome the tendency for workers and businesses to seek higher wages and prices in an effort to offset the effects of the income transfer associated with the rise in oil prices. Over the longer run, the ability of the nation to achieve sustained growth of real income will depend importantly on whether it can solve its energy problem.

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Part 2

Records, Operations, and Organization

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Record of Policy Actions of the Board of Governors

REGULATION B (EQUAL CREDIT OPPORTUNITY)

April 11, 1979—Amendment

The Board amended Regulation B, effective May 21, 1979, to clarify the definition of creditor.

> Votes for this action: Messrs. Miller, Wallich, Coldwell, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Mr. Partee.[1]

The amendment brought within the definition of creditor those persons who, in the ordinary course of their business, refer potential borrowers to creditors or who select creditors to whom applications for credit may be referred but who do not participate in decisions to grant credit. Examples of persons who regularly make credit referrals include automobile dealers, home improvement contractors, and real estate brokers. Such persons are defined as creditors for purposes of the regulation's general prohibitions against discrimination; however, they are not subject to the mechanical requirements of the regulation—for example, those dealing with notices and record retention.

REGULATION D (RESERVES OF MEMBER BANKS)

October 6, 1979—Amendment

The Board amended Regulation D to establish a marginal reserve requirement on certain managed liabilities, effective October 11, 1979.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.

The Board took several complementary actions that would provide greater control over the expansion of money and bank credit and thereby help curb speculative excesses in the financial, foreign exchange, and commodities markets and reduce inflationary pressures. The amendment to Regulation D, which affects member banks, Edge corporations, and U.S. agencies and branches of certain large foreign banks, establishes a reserve requirement of 8 percent on the amount by which an institution's total managed liabilities exceed the amount outstanding during the base period (September 13 to 26, 1979) or $100 million, whichever is greater. Managed liabilities include (1) time deposits in denominations of $100,000 or more with maturities of less than one year; (2) federal funds borrowings with maturities of less than one year from U.S. offices of depositary institutions that are not subject to federal reserve requirements; (3) certain repurchase agreements with maturities of less than one year; and (4) Eurodollar borrowings from foreign banking offices and certain other transactions. The amendment is directed at the sources of funds that banks have used actively to finance the expansion of bank credit.

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[1] On this and subsequent pages, footnote 1 indicates that there were two vacancies on the Board at the time the action was taken.

REGULATION D (RESERVES OF MEMBER BANKS), REGULATION K (INTERNATIONAL BANKING OPERATIONS), REGULATION M (FOREIGN ACTIVITIES OF NATIONAL BANKS), AND REGULATION Y (BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL)

February 14 and June 8, 1979—Amendments, Adoption, and Rescission of Regulations

The Board revised its foreign banking regulations to comply with the requirements of the International Banking Act of 1978 and to meet the objectives of the Board's Regulatory Improvement Project.

Effective February 14, 1979, the Board approved technical amendments to Regulations D and M that transferred from Regulation M to Regulation D the provisions governing reserve requirements for foreign branches of member banks.

> Votes for these actions: Messrs. Miller, Coldwell, Partee, and Mrs. Teeters. Votes against these actions: None. Absent and not voting: Mr. Wallich.

On June 8, the Board adopted a new Regulation K and rescinded the former Regulation K, Regulation M, and part of Regulation Y, effective July 14, 1979.

> Votes for these actions: Messrs. Miller, Wallich, Partee, and Mrs. Teeters. Votes against these actions: None. Absent and not voting: Mr. Coldwell.[1]

The International Banking Act directed the Board to revise its regulations governing Edge corporations in order to stimulate competition in providing international banking and financial services throughout the United States. The Board revised its foreign banking regulations pursuant to the act and to the Regulatory Improvement Project, which is a program to revise, clarify, and update all Federal Reserve regulations. The Board was guided by the directives in the International Banking Act that Edge corporations be given sufficiently broad powers to enable them to compete with foreign banking institutions in the United States and abroad, and that Edge corporations serve as a means to foster the participation of regional and smaller banks in international banking and financing services.

In February, the Board approved technical amendments that removed the provisions governing reserve requirements on foreign deposits from Regulation M and consolidated them within Regulation D. In June, the Board approved substantive revisions to the regulations governing the international operations of member banks, Edge and Agreement corporations, and bank holding companies, and combined them in a new, comprehensive Regulation K, International Banking Operations. The previous Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act, was rescinded, as were Regulation M and the foreign banking provisions (section 225.4(f)) of Regulation Y.

REGULATION E (ELECTRONIC FUND TRANSFERS)

March 7, 1979—Adoption of Regulation

The Board approved adoption of certain portions of Regulation E, effective March 30, 1979, to comply with requirements of the Electronic Fund Transfer Act.

> Votes for this action: Messrs. Miller, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Mr. Wallich.[1]

The Electronic Fund Transfer Act was designed to protect consumers who use electronic fund transfer (EFT) services. The sections of Regulation E that were adopted implement the two provisions of the act that became effective February 8, 1979, by establishing limitations on consumer liability for unauthorized use of an EFT card and by specifying the conditions under which EFT cards may be issued.

Additional sections of the regulation will be adopted to implement the remaining portions of the Electronic Fund Transfer Act that become effective May 10, 1980.

June 6, 1979—Amendment

The Board amended Regulation E, effective August 1, 1979, to require disclosure of certain information before a consumer can be held liable for unauthorized use of an EFT access device.

> Votes for this action: Messrs. Miller, Wallich, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Mr. Coldwell.[1]

The amendment provides further guidance regarding consumer liability for unauthorized use of an EFT access device and supplements the rules issued in March, when portions of the regulation were adopted to implement the sections of the Electronic Fund Transfer Act that became effective earlier this year. Although the general disclosure requirements of the act are contained in the portion that becomes effective in 1980, the Board adopted this amendment in the interim to inform consumers of their potential liability.

The amendment states that consumers will have no liability for unauthorized transfers if a creditor has not made the following disclosures, in writing: (1) the extent of a consumer's financial liability for unauthorized use; (2) the institution's telephone number and address for reporting a lost or stolen card; and (3) the institution's normal business days for reporting a lost or stolen card. These interim disclosure requirements serve to inform consumers of their potential liability and of their responsibility to report promptly any unauthorized use so that such liability can be minimized.

August 1, 1979—Amendment

The Board amended Regulation E, effective September 10, 1979, to change the time when a written notice of unauthorized use of an EFT card becomes effective.

> Votes for this action: Messrs. Schultz, Partee, and Mrs. Teeters. Votes against this action: Messrs. Wallich and Rice. Absent and not voting: Messrs. Miller and Coldwell.

Regulation E, which implements the Electronic Fund Transfer Act, limits the amount for which consumers will be liable if their EFT access card is lost, stolen, or otherwise used in a manner unauthorized by the cardholder. As stipulated in the act, a consumer's liability for unauthorized transfers varies according to the time that elapses before the consumer notifies the financial institution of the unauthorized use. Liability rises from $50 to $500 if notification is delayed more than two business days from the time the consumer learns of the loss or theft of the card; it is unlimited for transfers occurring more than 60 days after transmittal of the statement showing the unauthorized use, if the consumer fails to notify the institution within the 60-day period. The regulation, as amended, makes the written notice of loss, theft, or unauthorized use effective at the time it is mailed by the consumer rather than upon receipt by the institution.

Governors Wallich and Rice opposed the amendment because they believed that the two-day time period specified in the Electronic Fund Transfer Act should be lengthened to allow consumers additional time to provide the notice, and that the provision currently in Regulation E governing effective date of the written notice should remain unchanged. They were concerned because liability for unauthorized use would be transferred from the consumer to the institution despite the fact that the institution may not know of the unauthorized transfer. They also questioned the ability of an institution to verify the time when a consumer learns of an unauthorized use or mails the notice.

The other Board members sympathized with these concerns but favored adoption of the amendment because of the consumer's escalating liability when notice is delayed and because of the uncertainties of mail delivery. They also noted that an institution's risk of loss was minimized by the fact that most consumers give notice of a lost or stolen EFT card by telephone rather than by mail. They therefore approved the amendment that makes the written notice effective at the time it is mailed.

October 3, 1979—Amendments and Additions

The Board amended certain provisions of Regulation E, effective November 15, 1979. It also adopted several new sections of the regulation and additional amendments to existing sections, effective May 10, 1980.

> Votes for these actions: Messrs. Schultz, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against these actions: None. Absent and not voting: Messrs. Volcker and Wallich.

The amendments pertained to: exemptions for certain types of securities or commodities transfers and for intrainstitutional transfers; consumer liability for unauthorized transfers; definitions; and issuance of access devices. The new sections govern the following areas: special requirements, initial disclosures, changes in terms and error resolution notices, preauthorized transfers, relation to state law, and administrative enforcement. These sections implement the portions of the Electronic Fund Transfer Act that will become effective May 10, 1980.

REGULATION F (SECURITIES OF MEMBER STATE BANKS)

November 21, 1979—Amendments

The Board amended the disclosure provisions of Regulation F, effective December 31, 1979, to conform with recent changes in comparable rules of the Securities and Exchange Commission.

> Votes for this action: Messrs. Volcker, Schultz, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Wallich.

The amendments, which specify the public disclosures required of member state banks whose stock is registered pursuant to Regulation F, pertain to the following areas: (1) beneficial ownership and acquisition statements; (2) corporate governance; (3) management remuneration; (4) changes in independent auditor fees; and (5) simplification and other amendments.

REGULATION H (MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM)

June 20, 1979—Amendment

The Board amended Regulation H, effective January 1, 1980, to prescribe recordkeeping and confirmation requirements for state member banks that make securities transactions for their customers.

> Votes for this action: Messrs. Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Miller and Wallich.[2]

The Board amended its regulation governing bank practices to provide new, uniform standards for recordkeeping, confirmation, and other procedures involving securities transactions for trust departments and other bank customers. These changes were effected to provide the same type of investor protection at state member banks that customers of investment firms receive.

Similar regulations were adopted by the Federal Deposit Insurance Corporation and the Comptroller of the Currency.

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[2] On this and subsequent pages, footnote 2 indicates that there was one vacancy on the Board at the time the action was taken.

December 19, 1979—Amendments

The Board amended Regulation H, effective January 1, 1980, to revise the uniform standards and requirements adopted in July for member banks that make securities transactions for trust department and other bank customers.

> Votes for this action: Messrs. Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Volcker.

The amendments revise the existing standards by exempting transactions in U.S. government and federal agency securities from internal reporting requirements applicable to certain bank officers and employees. In addition, government obligations are excluded from the securities transactions required to be counted when determining whether a bank qualifies for a previously adopted exception from certain of the recordkeeping requirements. The amendments also make minor clarifying revisions and language changes in the existing standards.

REGULATION K (INTERNATIONAL BANKING OPERATIONS)

February 14 and June 8, 1979—Amendments, Adoption, and Rescission of Regulations

These actions are discussed under Regulation D.

REGULATION L (MANAGEMENT OFFICIAL INTERLOCKS)

June 20, 1979—Adoption of New Regulation and Rescission of Old Regulation

The Board adopted a new Regulation L and rescinded the previous Regulation L, Interlocking Bank Relationships under the Clayton Act, effective July 19, 1979.

> Votes for this action: Messrs. Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Miller and Wallich.[2]

The Depository Institution Management Interlocks Act (Title II of the Financial Institutions Regulatory and Interest Rate Control Act of 1978) generally prohibits interlocking relationships between officers and directors of competing financial institutions, including banks and savings and loan associations and their parent holding companies, mutual savings banks, and credit unions. The Board and the other federal regulators of

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financial institutions adopted regulations to implement the act that prohibit a management official of one depositary institution from holding the following positions: (1) service as an official of a nonaffiliated institution if the two institutions are located within the same standard metropolitan statistical area (institutions having less than $20 million in assets are exempt); (2) service as an official of another institution if the two are located in the same or adjacent communities; and (3) service as an official of another depositary institution with more than $500 million in assets if the official holds a similar position with an institution having more than $1 billion in assets. These prohibitions also apply to U.S. offices of foreign banks.

The regulation provides that the agencies may grant exemptions—either temporary or permanent—in situations such as the following: to establish new institutions, to establish minority-owned institutions, or to preserve the soundness of an institution in financial difficulty. In addition, interlocking relationships in existence before November 10, 1978, will be allowed to continue for up to 10 years.

REGULATION M (FOREIGN ACTIVITIES OF NATIONAL BANKS)

February 14 and June 8, 1979—Amendments, Adoption, and Rescission of Regulations

These actions are discussed under Regulation D.

REGULATION O (LOANS TO EXECUTIVE OFFICERS, DIRECTORS, AND PRINCIPAL SHAREHOLDERS OF MEMBER BANKS)

February 28, 1979—Amendments

The Board approved amendments to Regulation O, effective March 10, 1979, to implement portions of the Financial Institutions Regulatory and Interest Rate Control Act of 1978.

> Votes for this action: Messrs. Miller, Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None.[1]

One portion of the Financial Institutions Regulatory Act was designed to prevent bank insiders from abusing their positions by ensuring that bank officials do not receive loans or other services on terms more favorable than those available to the general public for comparable transactions. The Board's implementing regulation imposed four lending limitations on member banks: (1) a limit equal to 10 percent of a bank's capital and surplus for aggregate loans to officers, directors, or principal shareholders of a member bank, its parent holding company or affiliate, or the officials' related interests; (2) a prohibition on banks from paying an overdraft for an executive officer or director except in certain specified instances; (3) a requirement that every extension of credit to bank officials or their related interests be on substantially the same terms as those prevailing for comparable credits to others, and that the loan not involve more than the normal amount of risk of repayment; and (4) a requirement that every extension of credit to officials or their related interests that exceeds $25,000 in the aggregate, per individual, be approved in advance by the bank's board of directors. The regulation applies not only to bank and holding company officials, but also to executive officers of all other subsidiaries of the holding company if the officials participate in policymaking functions of the bank.

Pursuant to these revisions, the Board also changed the title of Regulation O from "Loans to Executive Officers of Member Banks" to "Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks."

November 14, 1979—Amendments

The Board amended Regulation O, effective December 31, 1979, to adopt the reporting requirements imposed by two sections of the Financial Institutions Regulatory and Interest Rate Control Act of 1978.

> Votes for this action: Messrs. Schultz, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Volcker and Wallich.

One section of the act prohibits a bank that maintains a correspondent-account relationship with another bank from extending credit on preferential terms to that bank's executive officers, directors, or principal shareholders. The amendments to Regulation O require officials to report annually to the bank's board of directors the amount of their own indebtedness to each of the institution's correspondent banks, as well as any indebtedness of their related interests. Each bank must prepare annually, for transmittal to the appropriate federal supervisory agency, a report that lists the name of each executive officer or principal shareholder who files a report of indebtedness, and the aggregate amount of indebtedness of those persons or their related interests to the institution's correspondent banks.

The amendments also require, pursuant to a second section of the act, that each insured bank prepare an annual report—to be available to the public upon request—that contains a list of its principal shareholders; a list of executive officers, principal shareholders, and related interests who were indebted to the bank during the year; and the aggregate amount of such debt.

REGULATION Q (INTEREST ON DEPOSITS)

March 8, 1979—Amendment

The Board approved an amendment to Regulation Q, effective March 15, 1979, to prohibit the compounding of interest on money market certificates by member banks.

> Votes for this action: Messrs. Miller, Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None.[1]

Money market certificates are 26-week time deposits issued by financial institutions in denominations of $10,000 or more that earn interest at a rate tied to the discount rate on 26-week Treasury bills sold at the weekly auction. Commercial banks may pay interest at a rate equal to the bill rate; thrift institutions may pay ¼ of a percentage point more than the bill rate.

The Board and the other federal regulators of financial institutions authorized two changes in the terms under which such certificates can be issued. One change, which affects all financial institutions, prohibits the compounding of interest earned on such deposits. The second change, which affects only thrift institutions, eliminates the differential of ¼ percentage point that those institutions may pay when the discount rate on Treasury bills is above 9 percent; the differential would be phased back in as the Treasury bill rate fell between 9 and 8¾ percent. The agencies took these actions to reduce the cost of time deposits for thrift institutions and to moderate the flow of credit to housing, in an effort to restrain inflationary pressures.

May 30, 1979—Amendments and Interpretation

The Board amended Regulation Q, effective July 1, 1979, to change certain terms applicable to time and savings deposits. It also issued an interpretation on pooling of deposits, effective immediately.

> Votes for these actions: Messrs. Miller, Wallich, Partee, and Mrs. Teeters. Vote against these actions: Mr. Coldwell.[1]

The Board, together with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, approved four amendments that modify the terms on time deposits and increase the rate of return on time accounts of less than $10,000. The amendments had the following provisions:

1. The introduction of a new category of time deposit with a maturity of four years or longer, a variable ceiling, a fixed rate of return, and no minimum denomination. The maximum rate that could be paid on the new time deposit would be tied to the yield on four-year Treasury securities, as determined at the monthly auctions by the Treasury Department. The ceiling for commercial banks would be 1¼ percentage points below the yield on comparable Treasury securities, while the ceiling for thrift institutions would be 1 percentage point below the auction yield.
2. An increase of ¼ percentage point in the maximum rate payable on savings accounts at commercial banks and thrift institutions.
3. The removal of all minimum-denomination requirements on time deposits other than the 26-week money market certificates.
4. A reduction of the penalties imposed on withdrawals from time deposits prior to maturity. For time deposits with an original maturity of one year or less, the maximum penalty would be a forfeiture of three months' interest; the maximum penalty for all other time accounts would be a forfeiture of six months' interest.

Governor Coldwell opposed the amendments for two reasons: He believed that the amendments, although a step in the right direction, did not do enough to improve the rate of return for small savers. He preferred that the rates on time deposits more nearly approximate the rate of return on money market instruments. He also feared that the formula for determining the rates payable on the new four-year savings certificates was too complicated. Other Board members also thought that the amendments were not a complete solution, but they believed that the changes were a helpful interim step toward improving the rate of return for small savers. Those Board members also pointed out that thrift institutions were hampered by the nature of their loan portfolios from increasing significantly in the short run the rates paid on time and savings deposits.

In a second action, the Board adopted an interpretation of Regulation Q that permits member banks to accept pooled deposits but prohibits them from advertising or actively soliciting such deposits. This interpretation supersedes an earlier ruling on pooled deposits that stated that acceptance by member banks of deposits believed to have been combined with the funds of others to obtain the higher yield available on larger-denomination time deposits was a violation of the spirit of Regulation Q.

Governor Coldwell opposed the interpretation because he felt that it was unenforceable and that it would discriminate against the unsophisticated saver. Other Board members thought that the interpretation was a better alternative than the other three options available to the Board: (1) prohibiting pooled deposits entirely; (2) continuing the previous ruling; or (3) permitting both the acceptance and solicitation of pooled deposits. Those Board members felt that enforcement problems would develop from an outright prohibition on pooling, while permitting member banks actively to promote pooled deposit arrangements would sanction an evasion of the interest rate ceilings mandated by the Congress. They were concerned, moreover, about the competitive disadvantage to thrift institutions, which are less able than commercial banks to pay the higher rates on pooled deposits.

July 30, 1979—Amendments

The Board amended Regulation Q, effective August 1, 1979, to subject certain repurchase agreements to interest rate ceilings and to change the terms governing time deposits.

> Votes for this action: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Miller and Coldwell.

The Board approved the following changes in the rules governing payment of interest on deposits:

1. Redefined the term "deposit" to include repurchase agreements (RPs) of less than $100,000 with maturities of 90 days or longer, thereby making such RPs subject to interest rate ceilings. The Board authorized a three-year phase-out period during which banks could continue to issue such RPs without regard to interest rate ceilings, provided the total amount of RPs outstanding at any one time did not exceed the volume outstanding on August 1, 1979.

2. Required banks to waive the penalty for withdrawals from a time deposit prior to maturity if the depositor dies or is declared mentally incompetent.

3. Allowed banks, with the consent of the depositor, to apply the more liberal provisions governing early withdrawal from time deposits that became effective July 1, 1979, to time deposit contracts entered into prior to that date.

4. Clarified that funds added to an existing time deposit account are subject to the interest rate ceilings in effect at the time the additional deposits are made.

5. Increased from 5 percent to 5¼ percent the maximum rate payable by member banks on time deposits with maturities of 30 to 89 days.

Similar amendments were adopted by the other federal regulators of financial institutions.

December 14, 1979—Amendments

The Board amended Regulation Q, effective January 1, 1980, to authorize a new category of time deposit and to change the ceiling rates payable on certain time deposits of member banks.

> Votes for this action: Messrs. Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Volcker.

The Board approved three amendments that modify the terms on time deposits to help the small saver and to improve the ability of banks to compete for funds. The amendments provide for the following changes:

1. Replacement of the four-year time deposit authorized in July with a new category of time deposit having a maturity of two and one-half years or longer and a maximum interest rate set at ¾ of a percentage point below the yield on Treasury securities having remaining maturities of two and one-half years.

2. An increase of ¼ percentage point (to 5¾ percent) in the ceiling on deposits maturing in 90 days to 1 year.

3. Elimination of the ¼ percentage point differential in the maximum rates payable by banks and thrift institutions on individual retirement accounts, Keogh plan accounts, and governmental unit funds that are deposited in the new 2½-year time deposits or in the 26-week money market certificates.

The other federal regulators of financial institutions authorized similar changes affecting the institutions under their jurisdictions.

REGULATION S (BANK SERVICE ARRANGEMENTS)

February 28, 1979—Rescission of Regulation

The Board rescinded Regulation S, effective March 10, 1979, and modified the interpretations relating to bank service arrangements.

> Votes for this action: Messrs. Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Mr. Miller.[1]

The Board reviewed Regulation S in connection with its Regulatory Improvement Project, which is a program to determine whether the Board's regulations need clarification, simplification, or cancellation. Regulation S, which was adopted in 1963 to implement the Bank Service Corporation Act, governs the performance of certain clerical services, such as check sorting, data processing, and bookkeeping, for state member banks by companies other than the bank itself. During the review, the Board determined that an amendment to the Bank Service Corporation Act made the regulation unnecessary if certain outstanding interpretations were modified. Accordingly, the Board made appropriate modifications in the interpretations to conform to the amended act and rescinded Regulation S.

REGULATION S (REIMBURSEMENT TO FINANCIAL INSTITUTIONS FOR ASSEMBLING OR PROVIDING FINANCIAL RECORDS)

September 26, 1979—Adoption of Regulation

The Board adopted a new Regulation S, effective October 1, 1979, that provides for reimbursing financial institutions for the costs associated with furnishing customers' financial records that are requested by a federal agency.

> Votes for this action: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Volcker and Coldwell.

The regulation implements a portion of the Right to Financial Privacy Act, which places restrictions on access by the federal government to the financial records of individuals and requires that federal authorities seeking such information follow certain procedures. Regulation S specifies the rates and the conditions for reimbursement of the necessary costs incurred by financial institutions in assembling or providing their customers' financial records or other information to a government authority. Financial institutions are entitled to payment for costs directly incurred in providing the information requested, including personnel costs for searching and preparing the documents, reproduction costs, and any transportation costs.

The federal financial regulatory agencies are exempt from the restrictions of the act in connection with the exercise of their supervisory, regulatory, or monetary functions.

REGULATION V (LOAN GUARANTEES FOR DEFENSE PRODUCTION)

February 7, 1979—Revision

The Board revised Regulation V, effective February 12, 1979, to simplify and improve the language of the regulation and to adjust the interest rates and guarantee fee structures applicable to such loans.

> Votes for this action: Messrs. Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Mr. Miller.[1]

Regulation V, which was adopted in 1950 to facilitate the financing of contracts and other operations necessary for national defense production, sets forth the procedures to be followed by the Federal Reserve Banks when acting as fiscal agents for those government agencies that are authorized to guarantee loans for defense purposes. It also sets forth the maximum rates of interest, guarantee fees, and commitment fees that may be charged for a guaranteed loan.

As part of its Regulatory Improvement Project, the Board revised Regulation V by updating and simplifying language and by incorporating within the regulation certain previously unpublished rulings. The revision also eliminated the fixed maximum interest rate that had been established for such guaranteed loans and allowed instead a rate tied to the prime rate of the financing institution. In addition, the revised regulation grants the guaranteeing agencies some discretion in the setting of loan guarantee fees.

REGULATION Y (BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL)

January 24, 1979—Amendments and Policy Statement

The Board approved amendments to Regulation Y and to the Rules regarding Delegation of Authority, effective March 10, 1979, that implement the Change in Bank Control Act of 1978. Effective February 5, 1979, the Board also issued a policy statement concerning the requirements, procedures, and objectives of the act.

> Votes for these actions: Messrs. Miller, Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against these actions: None.[1]

The Change in Bank Control Act of 1978, which became effective March 10, 1979, gave the federal bank supervisory agencies the authority to disapprove a proposal by any person to acquire control of an insured bank or bank holding company. The Board's policy statement issued pursuant to the act provided that persons seeking to acquire a bank holding company or a state member bank must notify the Board 60 days prior to the acquisition. The statement also specified the types of transactions that require submission of a notice to the Board, the types of transactions that are exempt, the information to be contained in the notice submitted to the Board, and the procedures the Board will follow in evaluating changes in control.

The Board amended Regulation Y, which was renamed Bank Holding Companies and Change in Bank Control, to establish the procedures for complying with the act; it also amended its Rules regarding Delegation of Authority to specify those actions the Reserve Banks may take regarding proposed changes in control.

February 1, 1979—Termination of Rulemaking

The Board terminated, effective February 2, 1979, the rulemaking proceeding that would have added check verification to the list of activities permissible for bank holding companies. Instead, the Board decided it would consider applications to provide verification services on a case-by-case basis.

> Votes for this action: Messrs. Miller, Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None.[1]

The rulemaking proceeding had been initiated because of an application by a bank holding company to acquire a nonbank subsidiary that would verify the acceptability and guarantee the payment of checks written by customers of subscribing merchants if the merchants fulfilled certain requirements. After determining that the activity was generally related to banking, the Board approved the specific application; however, since so few other bank holding companies had expressed an interest in providing check verification services, the Board decided not to add this activity to the list of activities permissible for all holding companies.

The Board noted that another bank holding company had applied to perform similar verification services, including those for electronic fund transfers, and that it would consider the matter further during its review of that application.

February 14 and June 8, 1979—Amendments, Adoption, and Rescission of Regulations

These actions are discussed under Regulation D.

February 21, 1979—Amendment

The Board approved an amendment to Regulation Y, effective April 2, 1979, that permits bank holding companies to sell at retail money orders, travelers checks, and savings bonds at the offices of their nonbank subsidiaries.

> Votes for this action: Messrs. Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Mr. Miller.[1]

The amendment added to the list of activities permissible for bank holding companies the activity of selling at retail money orders having a face value of $1,000 or less, travelers checks, and U.S. savings bonds. When this amendment was proposed initially, it also included a provision that would have permitted holding companies to provide consumer-oriented financial management courses. The Board declined to adopt the provision at this time and decided instead to consider applications to engage in such activity on a case-by-case basis.

October 24, 1979—Amendments

The Board amended Regulation Y, Rules of Procedure, and Rules regarding Delegation of Authority, effective immediately, to provide that a foreign bank that has no subsidiary in the United States, but that operates branches, agencies, or commercial lending companies in more than one Federal Reserve District, shall file its applications or reports with a Reserve Bank of only one of the Districts in which it operates.

> Votes for these actions: Messrs. Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against these actions: None. Absent and not voting: Mr. Volcker.

These actions assign responsibility for receiving applications and reports of such foreign institutions to the Federal Reserve Bank of the District in which the banking assets of the institution are largest. In addition, these amendments transfer primary responsibility for the supervision, examination, and processing of applications of Edge corporations from the Reserve Bank in whose District the corporation is located to the Reserve Bank responsible for supervising the Edge corporation's parent holding company or bank.

October 31, 1979—Amendment

The Board amended Regulation Y, effective December 5, 1979, to permit bank holding companies to sell general insurance in communities with a population of 5,000 or less.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Coldwell.

In 1971, the Board authorized bank holding companies or their nonbank subsidiaries to act as agent for the sale of general insurance in towns with a population of 5,000 or less, or in communities having inadequate insurance agency facilities. That rule was challenged, and in 1977 a Federal Court of Appeals remanded to the Board for further consideration that part of the rule permitting the sale of insurance in small towns.

After reviewing public comment on the provision, the Board decided to permit the sale of general insurance in towns with a population of 5,000 or less. The Board also decided that the sale of insurance in communities having inadequate insurance facilities was not an activity closely related to banking and it deleted that provision from Regulation Y. In addition, the Board amended the language of the regulation to specify that the sale of insurance in small towns from offices that are located in larger communities is not permissible.

REGULATION Z (TRUTH IN LENDING)

September 19, 1979—Revocation of Amendment and Interpretations

The Board revoked an amendment and related interpretations of Regulation Z, effective March 31, 1980, pertaining to the "cooling off" period for consumers who pledge their homes in certain credit arrangements.

> Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Vote against this action: Mr. Schultz. Absent and not voting: Mr. Coldwell.

The Board revoked an amendment adopted in mid-1978 that provided certain creditors who offer open-end credit plans secured by customers' residences with an alternative method of complying with a requirement of the Truth in Lending Act. The act requires creditors who offer such plans to disclose to consumers that they have the right to rescind a transaction within three business days; the amendment exempted individual transactions made under those plans and allowed creditors instead to provide the disclosure once each year and when the credit plan is established or when the terms of the plan are changed.

Consumer representatives had urged revocation of the amendment because they believed consumers faced a higher risk of losing their homes under this type of credit arrangement than under closed-end credit plans secured by residences. It was argued that open-end credit plans enabled a consumer to make a series of credit transactions each for a small amount relative to the collateral pledged, but which collectively could exceed the consumer's ability to repay. It also was alleged that the Board's adoption of the amendment in 1978 abrogated the right of rescission granted in the act.

Governor Schultz opposed revocation of the amendment because he feared that consumers who are denied access to this important source of relatively inexpensive credit will have to seek more expensive types of credit.

The other Board members shared Governor Schultz' concern, but they favored revocation of the amendment because of the controversy surrounding it, including questions about the Board's authority to adopt it. Consequently, the Board agreed to suspend the amendment and related interpretations and to seek clarification from the Congress regarding the right of rescission.

December 19, 1979—Amendments

The Board approved several amendments to Regulation Z, effective October 1, 1980, relating to the method of calculating and disclosing the annual percentage rate and finance charge of a credit transaction.

> Votes for this action: Messrs. Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Volcker.

The amendments permit greater uniformity and simplicity in the calculation of annual percentage rates (APRs) by creditors and thereby facilitate comparison of creditors' rates by consumers. The amendments adopted include the following:

1. A change in the tolerance permitted in disclosing annual percentage rates. Generally, an APR will be considered accurate if it is within ⅛ of a percentage point of the actual rate.
2. A change in the special rules for the treatment of minor irregularities

in payment schedules. The change simplifies the procedures for computing APRs and finance charges.

3. An extension of the current creditor protection against liability in cases of reliance in good faith on erroneous charts or tables. The protections now extend to errors resulting from inaccuracies in any calculation tool, including a computer or a calculator, used by the creditor in good faith.

In taking these actions, the Board stated that compliance may begin on January 10, 1980, but is not required until October 1, 1980. Until October, creditors may continue to comply with the previous rules.

REGULATION BB (COMMUNITY REINVESTMENT)

February 21, 1979—Amendment

The Board amended Regulation BB, effective April 26, 1979, to implement a revision in the Community Reinvestment Act.

> Votes for this action: Messrs. Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Mr. Miller.[1]

The revision in the Community Reinvestment Act affects financial institutions whose principal business is serving military personnel who are not located within a defined geographic area. The amendment to Regulation BB permits institutions that serve military installations to delineate a "military community" of nonlocal customers, in addition to their local community or communities. Together, these delineations constitute the institution's "entire community" for purposes of assessing its record of meeting the credit needs of the area.

POLICY STATEMENTS AND ACTIONS

January 10, 1979—Expanded Rulemaking Procedures

The Board adopted a policy statement, effective immediately, describing new rulemaking procedures designed to improve the quality and minimize the burden of its regulations.

> Votes for this action: Messrs. Miller, Wallich, Partee, and Mrs. Teeters. Vote against this action: Mr. Coldwell.[1]

The expanded rulemaking procedures will entail, during the initial phase of the rulemaking process, designation of particular Board members to oversee the development of substantive regulatory proposals. During this phase and prior to publication of a proposal for comment, the views of those most likely to be affected by the proposal will be sought. When a proposal is ready to be published for comment, the Board will also publish an analysis that includes: (1) a description of the need and purpose of a proposed new regulation or of a change in an existing rule; (2) an examination of alternative courses of regulatory action; (3) an assessment of the economic impact of the proposal; and (4) an estimate of the burdens of compliance, recordkeeping, and reporting imposed by the proposal. The Board stated that these procedures will be undertaken in conjunction with the Regulatory Improvement Project initiated in June 1978 to improve the organizational framework of the Board's regulations and to clarify and increase their readability.

Because these more detailed procedures at times may result in delays detrimental to those seeking relief, the Board included in the policy statement a number of circumstances under which it might follow more accelerated procedures, such as (1) when the Board adopts a technical or clarifying amendment; (2) when a proposal requires prompt action in the public interest; (3) when a proposal will reduce a burden where further delay would cause unnecessary harm; (4) when the regulation is a reformulation of a proposal previously published for comment; or (5) when the regulation must be adopted within a statutorily imposed deadline.

Governor Coldwell objected to the new procedures because he thought that they would prove too costly and would cause unnecessary delays in the rulemaking process.

January 10, 1979—Remote Disbursement

The Board issued a policy statement, effective January 11, 1979, concerning the practice of remote disbursement, and also announced a course of action to discourage the practice.

> Votes for this action: Messrs. Miller, Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None.[1]

Remote disbursement refers to a practice under which a depositor establishes a checking account at a bank geographically removed from the depositor's normal business area in order to extend the processing time required for clearing checks. The Board noted that these arrangements expose the paying banks and the recipients of checks remotely disbursed to a greater risk of loss during the prolonged check-clearing period. Recipients of remotely disbursed checks also may be unfairly denied prompt access to funds due them.

To correct these abuses, the Board adopted several measures to encourage more efficient corporate payments systems: (1) contacting the banks and bank holding companies believed to be engaging in remote disbursement to urge that they terminate the practice; (2) directing the System's bank examiners to review banks' settlement procedures for such practices; (3) providing a new option in the check-clearing system that would accelerate the collection of checks drawn on remote points; and (4) assessing the need for regulatory or legislative action to curb remote disbursement arrangements.

February 21, 1979—Foreign Bank Holding Company Supervision

The Board adopted a statement, effective February 23, 1979, describing its policy toward the supervision of foreign bank holding companies in the United States and summarizing the steps it will undertake to carry out that policy.

> Votes for this action: Messrs. Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Mr. Miller.[1]

The policy statement said that the Board will be guided by the principle of national treatment in administering the International Banking Act of 1978 and the provisions of the Bank Holding Company Act that relate to foreign banks. In its supervisory efforts, the Board will seek to ensure that U.S. subsidiary banks are operated in a safe and prudent manner and that the parent holding company is a source of strength to the U.S. banking subsidiary. The Board will not attempt, however, to extend domestic bank supervisory standards to parent foreign banking institutions.

The statement also described several measures that the Board will initiate to implement this supervisory policy: (1) increase examiner surveillance of intercompany transfers and common customer credits involving the U.S. subsidiary bank and its foreign parent company; (2) require additional financial information about the foreign company; (3) institute quarterly reports on transactions between the U.S. subsidiary and the foreign parent; and (4) continue to work with bank supervisory authorities in other countries to improve overall cooperation in international bank regulation.

September 19, 1979—Amendments to Rules of Practice for Hearings

The Board amended its Rules of Practice for Hearings, effective September 24, 1979, to implement the expanded supervisory authority granted by the Financial Institutions Regulatory and Interest Rate Control Act of 1978.

> Votes for this action: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Volcker and Coldwell.

The amendments, which include a change in title from the previous "Rules of Practice for Formal Hearings," establish procedures by which the Board can exercise the authority granted by the act (1) to assess and collect civil money penalties for violations of certain provisions of law, and (2) to suspend or remove bank officials charged with a felony. The existing rules also were amended to incorporate the prohibitions contained in the Government in the Sunshine Act against communication with individual Board members about a particular case during formal administrative proceedings.

September 26, 1979—Adoption of Rules regarding Foreign Gifts and Decorations

The Board adopted new rules entitled Rules regarding Foreign Gifts and Decorations, effective November 1, 1979.

> Votes for this action: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Volcker and Coldwell.

The rules were adopted to implement recent amendments to the Foreign Gifts and Decorations Act that in general prohibit federal employees from retaining tangible or intangible gifts valued at more than $100 from foreign governments. The amended act also imposes more stringent reporting requirements and provides for civil action against an employee who accepts a gift but does not report it. The Board's rules incorporate guidelines issued by the Department of State and regulations of the General Services Administration.

October 10, 1979—Discrimination

The Board issued a policy statement on discrimination, effective October 11, 1979.

> Votes for this action: Messrs. Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Volcker.

The statement, issued jointly with the other member agencies of the Federal Financial Institutions Examination Council, emphasized that the federal regulatory agencies are committed to eliminating discrimination and to encouraging nondiscriminatory practices in the operations of the commercial banks and thrift institutions they supervise. The agencies stated that they will use their enforcement authority to encourage institutions to develop nondiscriminatory employment practices and procedures that comply with civil rights laws, covering circumstances such as the payment of employee fees or dues to private clubs.

November 9, 1979—Futures, Forward, and Standby Contracts

The Board issued a policy statement, effective January 1, 1980, to provide procedures and guidelines for commercial banks that make futures, forward, or standby contracts in U.S. government or agency securities. The statement, issued jointly with the Comptroller of the Currency and the Federal Deposit Insurance Corporation, affects contracts outstanding at that time as well as contracts entered into after that date.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.

The statement provides procedures that commercial banks should follow to ensure that their participation in interest rate futures contracts, forward contracts, or standby contracts on government or agency securities are consistent with safe and sound banking practices. The guidelines for banks that are authorized to participate in the markets for such contracts include directives on the role of bank boards of directors, recordkeeping, valuation of contracts, treatment of fee income from standby contracts, disclosure of participation by a bank in the futures markets, monitoring such participation and the associated credit risks, and internal controls at banks.

In issuing this statement, the Board said that it would assess bank involvement in these markets to determine if other safeguards against unsound banking practices are needed.

December 10, 1979—Divestiture of Nonbank Subsidiaries

The Board issued a policy statement, effective December 12, 1979, describing the penalties that will apply to holding companies that fail to comply with the divestiture requirements of the 1970 amendments to the Bank Holding Company Act.

> Votes for this action: Messrs. Schultz, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Volcker, Wallich, and Coldwell.

Certain organizations that became bank holding companies as a result of the 1970 amendments to the Bank Holding Company Act were required either to divest the impermissible nonbank activity, to divest the bank and thereby cease being a bank holding company, or to qualify for an exemption that would allow retention of the nonbank activity. The deadline for completing the action is December 31, 1980. Since the Board is not authorized to extend the deadline, it has urged affected companies to make the appropriate filing early, in order to allow sufficient time for the Board to review the application or divestiture plan and for the company to complete whatever action is required by the Board.

The policy statement emphasizes that the Board will regard as an extremely serious matter any violation resulting from failure to comply with these requirements and that it will take appropriate enforcement action, such as cease-and-desist proceedings, assessment of civil penalties, or referral for criminal prosecution, to assure compliance.

December 19, 1979—Interagency Coordination of Examination and Supervisory Action

The Board adopted two statements of policy that provide for coordination among the federal bank supervisory agencies in certain examination, supervisory, and corrective actions affecting bank holding companies and their subsidiary commercial banks.

> Votes for these actions: Messrs. Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against these actions: None. Absent and not voting: Mr. Volcker.

One policy statement, which concerned the supervision of bank holding companies and their subsidiary banks, described the circumstances under which the agencies will coordinate the inspection of holding companies with the examination of subsidiary banks. The second statement described the procedures to be followed by the agencies to coordinate formal corrective actions, such as the issuance of cease-and-desist orders and written agreements. These policies will enhance particularly the supervision of institutions needing special attention and will promote consistency in the use of formal corrective action.

Similar policies were adopted by the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

December 21, 1979—Information Statement on the Community Reinvestment Act

The Board issued an information statement, effective January 3, 1980, describing the criteria the Board will use to analyze applications that are protested under the Community Reinvestment Act of 1977.

> Votes for this action: Messrs. Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Volcker.

The Community Reinvestment Act (CRA) requires that supervisory agencies evaluate an institution's record of meeting the credit needs of its entire community, including the low- and moderate-income areas, when considering applications to expand the banking activities of the bank or its parent holding company.

The statement provides guidance to bank holding company applicants, community groups, and other interested persons regarding the factors the Board will consider when assessing an institution's record and the procedures to be followed when applications are protested. The statement also indicates that the Board will develop a procedural guide for participants in CRA matters.

1979—DISCOUNT RATES

The Board approved four increases in the discount rate during 1979, raising the level from 9½ percent in mid-July to 12 percent in early October. The Board also voted on eleven occasions to turn down requests for increases submitted by individual Federal Reserve Banks. No requests to lower the rate were submitted during 1979.

The specific reasons for the Board's decisions are reviewed in this section. In reaching those decisions the Board also took into account general economic and financial developments, including those affecting the value of the dollar in foreign exchange markets. These developments are covered in more detail elsewhere in this REPORT, especially in the Record of Policy Actions of the Federal Open Market Committee and in the monetary policy reports submitted semiannually to the Congress pursuant to the Full Employment and Balanced Growth Act of 1978.

A listing of the Board's discount rate actions during 1979, including the votes on the actions and reasons for dissents, follows this review.

January to Mid-July: No Change

During January the Board turned down requests by three Federal Reserve Banks to raise the discount rate from 9½ percent—the level in effect since early November 1978—to 9¾ or 10 percent. The other nine Banks had proposed that the current rate be maintained. In the Board's judgment, technical considerations did not then favor approval of an increase since the discount rate was already in reasonable alignment with other short-term interest rates and member bank borrowings were relatively moderate. As to the broader considerations weighing on its decisions, the Board saw a possible advantage under current circumstances in an action that would underscore the System's continuing anti-inflationary policy and thereby help to restrain inflationary expectations. However, a number of members gave more weight to recent indications that the economic expansion might be slowing and that little growth, or some actual decline, was occurring in key measures of the money supply.

Subsequently, during March the Board disapproved requests from two Banks to raise the discount rate ¼ percentage point. A majority of the Board members felt that persisting weakness in the monetary aggregates argued strongly against a higher rate. They also believed an increase would be undesirable in light of continuing indications that the economic expansion might be slowing.

During May six of the twelve Banks proposed an increase in the discount rate to 9¾ percent. Those requests were disapproved in light of further evidence of slower growth in economic activity. A majority of the Board members also thought that the discount rate should not be raised in a period when the Federal Open Market Committee (FOMC) was pursuing a steady course with respect to its objective for the federal funds rate. These broad considerations were viewed as persuasive even though a higher rate could be justified on technical grounds, including the relatively wide spread that had developed between the discount rate and other short-term interest rates and the substantial rise in member bank borrowings.

From the latter part of May until early July, most interest rates other than the federal funds rate fell substantially on balance. During that period no request to change the discount rate was submitted by any of the Reserve Banks.

Mid-July to Early October: Four Increases Approved

On July 19 the Board voted unanimously to raise the discount rate from 9½ to 10 percent. The action was taken partly to help strengthen the dollar, which had been under strong downward pressure in foreign exchange markets. The increase was also intended to bring the discount rate into better alignment with other short-term interest rates that had risen considerably since early July. Furthermore, the action was viewed as consistent with the general thrust of monetary policy and in particular with an increase in the FOMC's objective for the federal funds rate in a period of rapid growth in the monetary aggregates.

On August 16 the Board unanimously approved a further increase of ½ percentage point in the discount rate to 10½ percent. In the Board's judgment, the increase was needed as a timely indication of the System's concern about the persisting strength of inflationary forces in the economy. The action was also intended to complement a recent decision by the FOMC to raise further its objective for the federal funds rate in the effort to curb continued rapid growth in the monetary aggregates. An increase in the discount rate would bring it into better alignment with the emerging federal funds rate.

Prior to this action, on August 13, the Board had turned down a request by one Reserve Bank to raise the discount rate ¼ percentage point. That decision was based mainly on considerations of timing, especially in view of the approaching meeting of the FOMC at which the overall thrust of monetary policy would be reviewed. Moreover, conditions in the money market, including spreads between the discount rate and other short-term interest rates and the level of member bank borrowings, did not appear to present a strong case for raising the discount rate.

In late August the Board voted not to approve requests by five Reserve Banks to raise the discount rate ¼ or ½ percentage point. The members agreed that a case could be made for approval, especially in light of the continued virulence of inflation, the renewed weakness of the dollar in foreign exchange markets, and the further strength of the monetary aggregates. However, a majority preferred to await further developments before raising the discount rate. They emphasized the substantial firming of money market conditions that had already been fostered over the course of recent months, and some members expressed concern about overdoing the degree of monetary restraint. It was also suggested that the technical reasons for raising the discount rate—those relating to interest rate spreads and to the level of member bank borrowings—were not strong, especially for an increase of ½ percentage point.

On September 18 the Board approved by a vote of 4 to 3 an increase in the discount rate from 10½ to 11 percent. The Board members who favored this action stressed the strong technical case for approval. Other short-term interest rates, including the federal funds rate, had risen appreciably in recent weeks, and an upward adjustment in the discount rate would bring it into closer alignment with other rates and would tend to discourage excessive borrowing by member banks. It was also suggested that an increase under present circumstances would tend to dampen inflationary sentiment by signaling the System's concern about inflation and might have a favorable impact on the dollar in foreign exchange markets.

An increase of a full percentage point in the discount rate to a level of 12 percent was approved unanimously on October 6. This action was designed to complement policy initiatives that included a change in the method of conducting monetary policy through open market operations and the establishment of an 8 percent marginal reserve requirement on increases in certain bank liabilities. As explained elsewhere in this REPORT, the purpose of this series of actions was to assure better control over the expansion of money and bank credit and to help curb speculative excesses in financial, foreign exchange, and commodity markets, thereby dampening inflationary forces in the economy.

The Board believed that an increase of a full percentage point in the discount rate would best complement the other measures, especially in light of the objectives of forestalling speculative excesses in financial markets and curbing expectations of a new inflationary outburst. Moreover, although the impact of the change in the procedure for conducting open market operations was uncertain, it was thought prudent to raise the discount rate significantly so that restraint on bank reserves through open market operations would not be offset by excessive member bank borrowings.

Mid-October through December: No Change

In late October and early November several Federal Reserve Banks proposed further increases in the discount rate to 12½ or 13 percent. A majority of the Board members were opposed to such increases despite the strong technical reasons for them. Most short-term interest rates, including the federal funds rate, had risen to levels well above the discount rate and member bank borrowings had advanced to an unusually high average. However, given the sensitivity and volatility of financial markets after the October 6 actions, the Board thought that an increase in the discount rate was likely to be misread as a signal of further monetary restraint and to be accompanied by further rises in market interest rates. The Board also felt that more time was needed to determine whether the tight money conditions that had developed after October 6 would lead to slower monetary growth and to a reduced demand for borrowing. In this situation and in light of the uncertain economic outlook, the Board decided to table the proposed increases.

The pending discount rate actions were subsequently reviewed and tabled at meetings during the first part of November. The tabling procedure, a departure from earlier practice, did not imply a predisposition on the part of the Board to approve pending actions at a later date. Rather, its purpose was to keep the Board's options open in a period of marked uncertainties and thus to facilitate the management of the discount rate.

In late November the Board decided that proposed increases still pending for three Banks should be disapproved; five other Banks had withdrawn requests they had submitted earlier. In reaching this decision the Board took into account sizable declines in most interest rates over the course of previous weeks, a considerably reduced level of member bank borrowings, and an apparent moderation in the expansion of the monetary aggregates.

During December market interest rates fluctuated within much narrower ranges, member bank borrowings declined further on balance, and growth in the monetary aggregates was relatively moderate. No proposals were made to change the discount rate.

Votes on Reserve Bank Actions to Change the Discount Rate

Under the provisions of the Federal Reserve Act, the boards of directors of the Federal Reserve Banks are required to establish rates on discounts for and advances to member banks at least every 14 days and to submit such rates to the Board for review and determination. The Board votes listed below are those that involved approval or disapproval of actions to change the rate. Specific reference is made to the rate on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act.

A corresponding change in the rates under other sections of the Federal Reserve Act was approved each time the rate under sections 13 and 13a was raised during 1979. As of December 31, 1979, the structure of rates was as follows: 12 percent for borrowings under sections 13 and 13a; 12½ percent for borrowings at the regular rate and 13 percent for borrowings at the special rate under section 10(b); and 15 percent for borrowings by individuals, partnerships, or corporations other than member banks under the last paragraph of section 13.

January 12, 1979

The Board disapproved actions taken on January 11 by the directors of the Federal Reserve Bank of Chicago to increase the discount rate from 9½ to 9¾ percent and by the directors of the Federal Reserve Banks of Cleveland and Dallas to increase the discount rate to 10 percent.

> Votes for this action: Messrs. Miller, Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None.[1]

January 26, 1979

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Cleveland on January 25 to increase the discount rate to 10 percent.

> Votes for this action: Messrs. Miller, Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None.[1]

March 9, 1979

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Cleveland on March 8 to increase the discount rate to 9¾ percent.

Votes for this action: Messrs. Miller, Wallich, Coldwell, and Partee. Votes against this action: None. Absent and not voting: Mrs. Teeters.[1]

March 30, 1979

The Board disapproved an action taken by the directors of the Federal Reserve Bank of New York on March 29 to increase the discount rate to 9¾ percent.

Votes for this action: Messrs. Miller, Partee, and Mrs. Teeters. Votes against this action: Messrs. Wallich and Coldwell.[1]

Messrs. Wallich and Coldwell dissented from this action because they felt that under prevailing circumstances even a small increase in the discount rate would provide a desirable signal of the System's determination to persist in its anti-inflationary policy and would help to moderate strong inflationary expectations that were feeding inflationary pressures in the economy.

May 11, 1979

The Board disapproved actions taken on May 10 by the directors of the Federal Reserve Banks of Cleveland, Chicago, and San Francisco to increase the discount rate to 9¾ percent.

Votes for this action: Messrs. Miller, Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None.[1]

May 16, 1979

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on May 11 to increase the discount rate to 9¾ percent.

Votes for this action: Messrs. Miller, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Mr. Wallich.[1]

May 18, 1979

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Philadelphia on May 17 to increase the discount rate to 9¾ percent.

Votes for this action: Messrs. Miller, Wallich, Coldwell, Partee, and Mrs. Teeters. Votes against this action: None.[1]

May 25, 1979

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Cleveland, Chicago, and St. Louis on May 24 and by the directors of the Federal Reserve Bank of Atlanta on May 25 to increase the discount rate to 9¾ percent.

> Votes for this action: Messrs. Miller, Partee, and Mrs. Teeters. Vote against this action: Mr. Wallich. Absent and not voting: Mr. Coldwell.[1]

Mr. Wallich dissented from this action because he believed the proposed increase was desirable to bring the discount rate into closer alignment with market interest rates and to provide a timely signal of the System's intent to continue pursuing an anti-inflationary policy.

July 19, 1979

Effective July 20, 1979, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco to increase the discount rate to 10 percent.

> Votes for this action: Messrs. Miller, Wallich, Coldwell, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Partee.[2]

August 13, 1979

The Board disapproved an action taken by the directors of the Federal Reserve Bank of San Francisco on August 9 to increase the discount rate to 10¼ percent.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.

August 16, 1979

Effective August 17, 1979, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Philadelphia, Richmond, and Kansas City to increase the discount rate to 10½ percent.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Cleveland, St. Louis, and Minneapolis, effective August 17, and the Federal Reserve Banks of Boston, Atlanta, Chicago, Dallas, and San Francisco, effective August 20.

August 31, 1979

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Cleveland on August 23, the Federal Reserve Banks of Richmond and San Francisco on August 30, and the Federal Reserve Bank of Atlanta on August 31 to increase the discount rate to 11 percent; and by the directors of the Federal Reserve Bank of Minneapolis on August 30 to increase the discount rate to 10¾ percent.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, and Mrs. Teeters. Vote against this action: Mr. Coldwell. Absent and not voting: Mr. Rice.

Mr. Coldwell favored an increase of ½ percentage point. In his judgment, such an increase would underscore the System's continuing policy of monetary restraint and tend to moderate inflationary expectations at a time of strong and persisting inflationary pressures and rapid growth in money and credit aggregates.

September 18, 1979

Effective September 19, 1979, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco to increase the discount rate to 11 percent.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, and Coldwell. Votes against this action: Mr. Partee, Mrs. Teeters, and Mr. Rice.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Bank of Kansas City, effective September 20, and the Federal Reserve Bank of Philadelphia, effective September 21.

Mr. Partee, Mrs. Teeters, and Mr. Rice dissented from this action because they preferred a steady policy course for the immediate future. In their judgment, more time was needed to assess current uncertainties in the economic outlook and the impact of increasing restraint on bank reserves and money market conditions implemented over the course of recent months.

October 6, 1979

Effective October 8, 1979, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, and San Francisco to increase the discount rate to 12 percent.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Atlanta, Chicago, Kansas City, and Dallas, effective October 9, and the Federal Reserve Bank of Boston, effective October 10.

November 26, 1979

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Cleveland on November 21 to increase the discount rate to 13 percent, and by the directors of the Federal Reserve Banks of Chicago and Atlanta on November 21 and November 23 respectively to increase the discount rate to 12½ percent.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.

Record of Policy Actions of the Federal Open Market Committee

The record of policy actions of the Federal Open Market Committee is presented in the ANNUAL REPORT of the Board of Governors pursuant to the requirements of section 10 of the Federal Reserve Act. That section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee on all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its ANNUAL REPORT to the Congress a full account of such actions.

In the pages that follow, there are entries with respect to the policy actions taken at the meetings of the Federal Open Market Committee held during the calendar year 1979, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions. The summary descriptions of economic and financial conditions are based on the information that was available to the Committee at the time of the meetings, rather than on data as they may have been revised later.

It will be noted from the record of policy actions that in some cases the decisions were by unanimous vote and that in other cases dissents were recorded. The fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy.

During 1979 the policy record for each meeting was released a few days after the next regularly scheduled meeting and was subsequently published in the *Federal Reserve Bulletin*.

Policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account. In the area of domestic open market activities, the Federal Reserve Bank of New York operates under two separate directives from the Open Market Committee, an Authorization for Domestic Open Market Operations and a domestic policy directive. In the foreign currency area, it operates under an Authorization for Foreign Currency Operations and a foreign currency directive. These four instruments are shown below in the form in which they were in effect at the beginning of 1979. Changes in the instruments during the year are reported in the records for the individual meetings.

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS

In effect January 1, 1979

1. The Federal Open Market Committe authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $3.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to 9 months at the time of acceptance that (1) arise out of current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers acceptances held at any one time shall not exceed $100 million;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate ¼ of 1 percent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $2 billion.

3. In order to insure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

4. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1 (a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on

purchases and sales of securities in paragraph 1 (c), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

DOMESTIC POLICY DIRECTIVE

In effect January 1, 1979

The information reviewed at this meeting suggests that in the current quarter real output of goods and services has picked up somewhat from the rate in the third quarter. In November, as in October, the dollar value of total retail sales expanded substantially. Industrial production and nonfarm payroll employment rose considerably further, and the unemployment rate remained at 5.8 percent. Over recent months, broad measures of prices and the index of average hourly earnings have risen rapidly.

The trade-weighted value of the dollar against major foreign currencies declined sharply following OPEC's announcement on December 17 of increased oil prices for 1979, after having declined slightly over the previous few weeks, but it remains substantially above the low reached just prior to the actions taken on November 1 to strengthen the dollar. The U.S. trade deficit in October was at about the rate recorded in the second and third quarters.

M-1 declined in November, only in part because of shifts of funds from demand deposits to savings deposits after the introduction of the automatic transfer service (ATS) at the beginning of the month. Over the first 11 months of 1978, M-1 grew at an annual rate of about 7¼ percent. Growth of M-2 and M-3 slackened further in November; they grew at rates of about 8¼ and 9¼ percent, respectively, over the first 11 months of the year. Inflows of deposits to nonbank thrift institutions slowed in November, after having grown rapidly in the preceding 3 months. Market interest rates in general have risen further in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging continued moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on October 17, 1978, in setting ranges for the monetary aggregates, the Committee recognized the uncertainties concerning the effects that the November 1 introduction of ATS would have on measures of the money supply, especially M-1. Against that background, the Committee agreed that appropriate monetary and financial conditions would be furthered by growth of M-2 and M-3 from the third quarter of 1978 to the third quarter of 1979 within ranges of 6½ to 9 percent and 7½ to 10 percent, respectively. The narrowly defined money supply (M-1) was expected to grow within a range of 2 to 6 percent over the period, depending in part on the speed and ~~extent~~ of transfers from demand to savings deposits resulting from the introduction of ATS. The associated range for bank credit is 8½ to 11½ percent. Growth of M-1+ (M-1 plus savings deposits at commercial banks and NOW accounts) in a range of 5 to 7½ percent was thought to be generally consistent with the ranges of growth for the foregoing aggregates. These ranges are subject to reconsideration at any time as conditions warrant.

In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to the program for supporting the foreign exchange value of the dollar, to developing conditions in domestic financial markets, and to uncertainties associated with the introduction of ATS. Early in the period before the next regular meeting, System open market operations are to be directed at attaining a weekly average Federal funds rate slightly above the current level. Subsequently, operations shall be directed at maintaining the weekly average Federal funds rate at about 10 percent or slightly above. In deciding on the specific objective for the Federal funds rate the Manager shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the December–January period of M-1 and M-2 and the following ranges of tolerance: 2 to 6 percent for M-1 and 5 to 9 percent for M-2. If, giving approximately equal weight to M-1 and M-2, their rates of growth appear to be significantly above the midpoints of the indicated ranges, the objective for the funds rate shall be raised in an orderly fashion within its range; if their rates of growth appear to be approaching the lower limits of the indicated ranges, the funds rate shall be lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be falling outside the limits of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager will promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

In effect January 1, 1979

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Treasury, with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding $1.0 billion, unless a larger position is expressly authorized by the Committee. [Note. An overall open position not exceeding $8.0 billion had been expressly authorized by the Committee on December 19, 1978, and was in effect as of January 1, 1979.] For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Bank of Japan	5,000
Bank of Mexico	360
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. Currencies to be used for liquidation of System swap commitments may be purchased from the foreign central bank drawn on, at the same exchange rate as that employed in the drawing to be liquidated. Apart from any such purchases at the rate of the drawing, all transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in accordance with Section 14(e) of the Federal Reserve Act.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported daily to the Foreign Currency Subcommittee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

FOREIGN CURRENCY DIRECTIVE

In effect January 1, 1979

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the proposed IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the proposed IMF Article IV.

MEETING HELD ON FEBRUARY 6, 1979

1. Domestic Policy Directive

Growth in real output of goods and services had accelerated to an annual rate of 6.1 percent in the fourth quarter of 1978, according to preliminary estimates of the Commerce Department, from a rate of 2.6 percent in the third quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, rose at an annual rate of 8.3 percent in the fourth quarter, slightly faster than the rate in the third quarter.

Staff projections for 1979 suggested a marked slowing in the expansion of economic activity by the second quarter of the year and a sustained slow rate of growth during the remaining quarters. Average prices were projected to continue rising at a rapid pace, and the rate of unemployment was expected to increase somewhat from its level in the fourth quarter.

The index of industrial production increased an estimated 0.6 percent in December, close to its average gain in earlier months of the year. Expansion in nonfarm payroll employment, including employment in manufacturing, continued strong in December and January. The January rate of unemployment, at 5.8 percent, was essentially unchanged from the previous five months.

The dollar value of total retail sales expanded considerably further in December, following two months of substantial gains. After declining somewhat in November, unit sales of new automobiles picked up in December and the first 20 days of January to a pace in line with that in the July–October period.

Private housing starts were at an annual rate of 2.1 million units in December and in the fourth quarter as a whole. In November, however, total sales of new and existing single-family houses declined somewhat.

The latest Department of Commerce survey of business spending plans, taken in late November and December, suggested that spending for plant and equipment would expand 11.2 percent from 1978 to 1979. The estimated increase in 1978 was about 12¾ percent. Manufacturers' new orders for nondefense capital goods declined 11 percent over November and December, but orders for the fourth quarter as a whole were considerably above those in the third quarter.

The index of average hourly earnings of private nonfarm production workers rose at an annual rate of 10½ percent in January; this rate of increase represented an acceleration from 8 percent in the fourth quarter and reflected in part a rise of about 9½ percent in the minimum wage to $2.90 on January 1. The consumer price index rose at an annual rate of almost 8 percent, and average prices of producer finished goods at a rate of about 10¼ percent in the fourth quarter; both measures were up about 9 percent from December 1977 to December 1978. In early 1979 there were substantial increases in prices of many farm products and an upward adjustment in oil prices by the Organization of Petroleum Exporting Countries.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies moved generally upward after the turn of the year; by the date of this meeting the advance had about offset the sharp decline that followed the OPEC announcement on December 17 of a larger-than-anticipated increase in oil prices for 1979. The U.S. merchandise trade deficit was at an estimated annual rate of $30 billion in the fourth quarter of 1978, close to the rates recorded in the second and third quarters.

In December growth of total credit at U.S. commercial banks moderated considerably further from its reduced November pace, as the expansion of bank loans slowed sharply and banks continued to liquidate holdings of securities. However, data from large banks suggested a strengthening of business loan growth in January. Outstanding commercial paper of nonfinancial businesses continued to increase rapidly in December.

The narrowly defined money supply (M-1) declined at an annual rate of 1½ percent over the December–January period.[1] This further contraction appeared to reflect, among other influences, the shifts of funds from demand deposits to savings deposits associated with the recently introduced automatic transfer service (ATS) and negotiable order of withdrawal (NOW) accounts in New York State. There was virtually no growth in M-2 over the December–January period, while growth in M-3 slackened further as relatively high market interest rates continued to curb inflows of time and savings deposits subject to fixed interest rate ceilings.[2] However, growth in other time deposits, including 6-month money market certificates and large-denomination certificates of deposit, remained sizable. From the fourth quarter of 1977 to the fourth quarter of 1978, M-1, M-2, and M-3 expanded about 7¼, 8½, and 9½ percent, respectively; for all three monetary aggregates, growth was substantially less than it had been over the preceding year.

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[1] M-1 comprises private demand deposits and currency in circulation.

At its meeting on December 19, the Committee had agreed that early in the intermeeting period open market operations should be directed toward attaining a weekly average federal funds rate of 10 percent or slightly higher. This objective represented a slight increase from the prevailing level. Subsequently, the objective for the federal funds rate was to be maintained within the range of 9¾ to 10½ percent. In setting a specific objective for the funds rate, the Manager of the System Open Market Account was to be guided mainly by the relationship between the estimated annual rates of growth in M-1 and M-2 over the December–January period and ranges of tolerance for those two monetary aggregates of 2 to 6 percent and 5 to 9 percent, respectively. If, with approximately equal weight given to M-1 and M-2, their rates of growth appeared to be significantly above the midpoints of the indicated ranges, the objective for the federal funds rate was to be raised in an orderly fashion within its range. On the other hand, the objective was to be lowered in an orderly fashion if the two-month growth rates appeared to be approaching the lower limits of the indicated ranges.

Immediately following the December 19 meeting the Manager of the System Open Market Account began to seek bank reserve conditions consistent with an increase in the weekly average federal funds rate to 10 percent or slightly higher, from a level around 9⅞ percent. However, federal funds traded at somewhat higher levels around the year-end, reflecting uncertainties that affected demands for bank re-

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2. M-2 comprises M-1 and commercial bank time and savings deposits other than large-denomination certificates of deposit. M-3 is M-2 plus deposits at nonbank thrift institutions (savings and loan associations, mutual savings banks, and credit unions).

serves. By late December, staff projections suggested that growth in M-2 over the December–January period would be at an annual rate well below the lower limit of the range of tolerance specified for that aggregate and growth in M-1 would be in the lower portion of its range of tolerance.

These developments pointed to a reduction in the objective for the federal funds rate toward the 9¾ percent lower limit of the specified range. However, on December 29 the Committee voted to modify its directive by calling for open market operations directed at maintaining the weekly average federal funds rate at about 10 percent or slightly above. This action was taken in view of uncertainties surrounding the interpretation of the behavior of the monetary aggregates and in light of domestic economic conditions and developments in domestic and international financial markets. On January 12 the Committee held a telephone conference to review the situation and to consider whether supplementary instructions were needed, but no change was made in the instruction to the Manager.

Most market interest rates declined on balance during the intermeeting period. Factors apparently contributing to this development included a market sentiment that further tightening in monetary policy had become less likely in light of the behavior of the monetary aggregates and the better performance of the dollar in foreign exchange markets. Another influence appeared to be the recent modest growth of total business credit demands. Commercial banks raised the loan rate to prime business borrowers from 11½ to 11¾ percent during the period, but a few banks later reduced the rate back to 11½ percent.

At this meeting, in conjunction with its discussion of the economic situation and outlook, the Committee reviewed its 12-month ranges for growth in the monetary aggregates. At its meeting in October 1978 the Committee had specified ranges of 6½ to 9 percent for M-2 and 7½ to 10 percent for M-3 for the period from the third quarter of 1978 to the third quarter of 1979. The committee also had indicated that it expected growth of M-1 to be within a range of 2 to 6 percent—a range that reflected uncertainty concerning both the size and the speed of the expected shift of deposits from demand to savings accounts resulting from the introduction of ATS, and of NOW accounts in New York State. The associated range for commercial bank credit was 8½ to 11½ percent. The Committee also had decided that growth of M-1 + within a range of 5 to 7½ percent appeared to be generally consistent with the ranges of growth for the other monetary aggregates. The ranges being considered at this meeting were for the period from the fourth quarter of 1978 to the fourth quarter of 1979.

The Committee's review of its longer-run ranges at this time was undertaken for the first time within the framework of the Full Employment and Balanced Growth ("Humphrey-Hawkins") Act of 1978. That act, which amended section 2A of the Federal Reserve Act, requires the Board of Governors to transmit to the Congress by February 20 and July 20 of each year written reports concerning the objectives and plans of the Board and the Committee with respect to the ranges of growth or diminution of the monetary and credit aggregates for the calendar year during which the report is transmitted and, in the case of the July report, the objectives and plans with respect to ranges for the following calendar year as well. The act also requires that the written reports set forth a review and analysis of recent developments affecting economic trends in the Nation and the relationship of the plans and objectives for the aggregates to the short-term goals set forth in the most recent Economic Report of the President and to any short-term goals approved by the Congress.[3]

With respect to the economic situation and outlook, most members of the committee expressed little or no disagreement with the staff projection of a marked slowing in the expansion by the second quarter of 1979 and of a sustained slow rate of growth over the rest of the year accompanied by some increase in the rate of unemployment. However, a few members questioned whether a very slow pace of growth was sustainable and suggested that the onset of a recession before the end of the year, with a larger increase in the unemployment rate, was the more likely development. Other members thought that over the past few months the probabilities of the development of a recession before the end of this year had declined somewhat. It was also observed that expansion might prove to be stronger than projected by the staff, especially if businessmen believed that effective steps were being taken to moderate the rate of inflation.

The members continued to anticipate a relatively rapid rise in average prices. Inflation was viewed as a distortion that could contribute to the development of a recession, and it was noted that forecasters typically had underestimated the strength of inflationary forces. In this connection, it was observed that the economy was operating at a higher rate in relation to its potential than had been thought earlier.

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[3] The Board's first report under the act was transmitted to the Congress on February 20, 1979.

In contemplating ranges for the monetary aggregates for the year ahead, the Committee continued to face unusual uncertainties concerning the forces affecting monetary growth. A staff analysis had suggested that shifts in funds from demand deposits to savings accounts with automatic transfer services and to the NOW accounts in New York would depress growth of M-1 over the year by about 3 percentage points, but that projection was based on only a brief experience. Moreover, it appeared that the publicity associated with ATS and the sustained high level of interest rates had induced the public to reassess more generally the desirability of holding demand deposits. It was expected that such a reassessment would continue over the year ahead, reducing somewhat further the demand for M-1 in relation to income as the public moved funds from demand deposits to interest-bearing assets.

Significant uncertainties existed with respect to growth of M-2 and M-3 as well. It appeared that the level of market interest rates had been inducing the public to divert large amounts of funds from deposits subject to fixed ceiling rates into market instruments. The staff analysis suggested that diversions of funds would continue in the period ahead, although not in the proportions of recent months. Thus, growth of the interest-bearing deposits included in the broader monetary aggregates was projected to pick up but to remain slower during 1979 than during 1978.

In the Committee's discussion, stress was placed on the importance of adopting ranges for monetary growth over the year ahead that would be consistent with a reduction in the rate of inflation, thereby reinforcing the governmental actions over recent months in pursuit of that objective. It was observed that the adoption of ranges for 1979 that, after allowance for ATS, were indicative of slower monetary growth might well influence attitudes and expectations in such a way that the rate of inflation would decline significantly without an adverse effect on the rate of unemployment. In this connection, it was suggested that any indication of a move toward an easing of monetary policy might change expectations so as to aggravate inflationary forces and thus increase rather than reduce the risks of a recession. It was also suggested that lowering the ranges to a degree that contributed to the onset of a recession could lead to developments that in the longer run would be inflationary.

At the conclusion of the discussion, the Committee decided both to lower the ranges for growth of the monetary aggregates over the year ahead and to widen them slightly, reflecting in part the special factors expected to influence monetary growth and the uncertainties with respect to the magnitude of their impact. For the period from the fourth quarter of 1978 to the fourth quarter of 1979, the Committee adopted a range of 1½ to 4½ percent for M-1. After allowance for a dampening effect of about 3 percentage points projected to result from the further shifts in funds from demand deposits to savings accounts with automatic transfer facilities, that range allowed for the possibility of a significant deceleration of growth from the pace of recent years.

The ranges adopted for M-2 and M-3 were 5 to 8 percent and 6 to 9 percent respectively. The associated range for the growth of commercial bank credit was reduced to 7½ to 10½ percent. It was understood that the longer-run ranges, as well as the particular aggregates for which ranges were specified, would be reconsidered in July or at any time that conditions might warrant. It was also understood that short-run factors might cause growth rates from one month to the next to fall outside the ranges anticipated for the year.

The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1978 to the fourth quarter of 1979: M-1, 1½ to 4½ percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. The associated range for bank credit is 7½ to 10½ percent.

> Votes for this action: Messrs. Miller, Volcker, Baughman, Coldwell, Eastburn, Partee, Mrs. Teeters, and Mr. Mayo. Votes against this action: Messrs. Wallich and Willes. Absent: Mr. Winn. (Mr. Mayo voted as alternate for Mr. Winn.)

Messrs. Wallich and Willes dissented from this action because, with the Committee's objective of slowing the rate of inflation in mind, they preferred to specify lower ranges for growth of the monetary aggregates. Mr. Willes believed that the range adopted for M-1, after allowance for the effects of ATS and a possible further downward shift in the public's demand for money, represented an increase from the ranges that had been adopted during

1978. Mr. Wallich thought that, after allowance for the expansion in repurchase agreements and Eurodollars in addition to the other forces affecting growth of M-1, the range adopted represented too much of an increase from the ranges set earlier.

In the discussion of policy for the period immediately ahead, most members of the Committee favored directing operations initially toward maintaining the money market conditions currently prevailing, as indicated by a federal funds rate of 10 percent or slightly higher, but some sentiment was expressed for a slight additional firming in money market conditions. The views of the members differed primarily with respect to the influence that the incoming evidence concerning growth of the monetary aggregates should have on the objective for the funds rate later in the period before the next meeting.

A few members, emphasizing the rate of inflation and the position of the dollar in foreign exchange markets, advocated an approach similar to that in the directive issued at the meeting in December; that directive instructed the Manager to vary the objective for the federal funds rate within its range more quickly in response to relatively high than to relatively low rates of monetary growth. A few others, emphasizing the uncertainties in the outlook for domestic economic activity and for employment and the weakness of monetary growth over recent months, preferred a symmetrical approach in which the objective for the funds rate would be changed no more promptly in response to relatively high than to relatively low rates of monetary growth. A number of members suggested that, in any event, the Committee consult again before any change was made in the objective for the federal funds rate.

The Committee decided to instruct the Manager to direct open market operations toward maintaining the weekly average federal funds rate at about the current level, provided that over the February–March period the annual rates of growth of M-1 and M-2, given approximately equal weight, appeared to be within ranges of 3 to 7 percent and 5 to 9 percent, respectively. The Committee agreed that if growth of M-1 and M-2 for the two-month period appeared to be outside the indicated limits, the Manager was promptly to notify the Chairman, who would then consult with the Committee to determine whether the situation called for supplementary instructions.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that in the fourth quarter of 1978 growth in real output of goods and services picked up sharply from the reduced rate in the third quarter. In December, as in the preceding two months, the dollar value of total retail sales expanded substantially, and industrial production and nonfarm payroll employment rose considerably further. Employment continued to grow in January, and the unemployment rate, at 5.8 percent, was virtually the same as in the final months of 1978. Over recent months, broad measures of prices and the index of average hourly earnings have continued to rise rapidly.

The trade-weighted value of the dollar against major foreign currencies has tended upward since the turn of the year, returning to about its level in mid-December prior to the OPEC announcement of increased oil prices. The U.S. trade deficit in the fourth quarter of 1978 was at about the same rate as in the second and third quarters.

M-1 increased little in December and appears to have declined in January, in part because of the continuing effects of the introduction of the automatic transfer service (ATS) on November 1, and M-2 and M-3 grew at relatively slow rates. With market interest rates relatively high, inflows to banks of the interest-bearing deposits included in M-2 slowed sharply, and inflows of deposits to nonbank thrift institutions slackened further. Over the year from the fourth quarter of 1977 to the fourth quarter of 1978, M-1, M-2, and M-3 grew about 7¼, 8½, and 9½ percent, respectively. Most market interest rates have declined on balance in recent weeks.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, it is the policy of the Federal Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. The Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent, respectively. The associated range for bank credit is 7½ to 10½ percent. These ranges will be reconsidered in July or at any time as conditions warrant.

In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to the program for supporting the foreign exchange value of the dollar and to developing conditions in domestic financial markets. In the period before the next regular meeting, System open market operations are to be directed at maintaining the weekly average federal funds rate at about the current level, provided that over the February–March period the annual rates of growth of M-1 and M-2, given approximately equal weight, appear to be within ranges of 3 to 7 percent and 5 to 9 percent, respectively. If growth of M-1 and M-2 for the two-month period appears to be outside the indicated limits, the Manager will promptly notify the Chairman, who will then consult with the Committee to determine whether the situation calls for supplementary instructions.

> Votes for this action: Messrs. Miller, Volcker, Baughman, Eastburn, Partee, Mrs. Teeters, Messrs. Wallich, Willes, and Mayo. Vote against this action: Mr. Coldwell. Absent: Mr. Winn. (Mr. Mayo voted as alternate for Mr. Winn.)

Mr. Coldwell dissented from this action because he preferred to direct open market operations early in the coming period toward a slight firming in money market conditions. He felt that the greatest danger currently was an intensification of inflationary pressures and that the longer-range prospects for inflation were unacceptable.

Subsequent to the meeting, at the beginning of March, projections suggested that over the February–March period M-1 would grow at an annual rate moderately below the lower limit of the range of 3 to 7 percent that had been specified by the Committee and M-2 would grow at a rate just below the lower limit of its range of 5 to 9 percent. On March 2 the Committee held a telephone meeting to determine whether the situation called for supplementary instructions. In light of contradictory evidence concerning underlying trends in economic activity following the strong performance in the fourth quarter of 1978, Chairman Miller recommended that the Manager be instructed to continue to aim for a weekly average federal funds rate of about 10 percent or slightly higher. The members concurred in the Chairman's recommendation.

By unanimous vote, the Committee modified the domestic policy directive adopted at its meeting on February 6, 1979, to call for continuance of open market operations directed toward maintaining the weekly average federal funds rate at about 10 percent or slightly above.

> Votes for this action: Messrs. Miller, Volcker, Black, Coldwell, Kimbrel, Mayo, Partee, Mrs. Teeters, Messrs. Wallich, and Guffey. Absent: Mr. Balles. (Mr. Guffey voted as alternate for Mr. Balles.)

2. Authorization for Domestic Open Market Operations

At this meeting the Committee voted to set a limit of $5 billion on changes between Committee meetings in holdings of U.S. Government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective for the period ending with the close of business on March 20, 1979. During the period since its meeting on December 19, 1978, the Committee had temporarily increased the limit specified in paragraph 1(a) in two steps, from $3 billion to $5 billion and subsequently to $6 billion until the close of business on February 6, 1979. The action to set the limit at $5 billion for the coming period was taken to provide flexibility for operations in view of the magnitude of float and other factors that might affect reserves in the weeks ahead and in view of the length of the interval until the next Committee meeting scheduled for March 20, 1979.

Votes for this action: Messrs. Miller, Volcker, Baughman, Coldwell, Eastburn, Partee, Mrs. Teeters, Messrs. Wallich, Willes, and Mayo. Votes against this action: None. Absent: Mr. Winn. (Mr. Mayo voted as alternate for Mr. Winn.)

MEETING HELD ON MARCH 20, 1979

1. Domestic Policy Directive

The information reviewed at this meeting suggested that growth in real output of goods and services had moderated in the current quarter after having accelerated to an annual rate of 6.9 percent in the fourth quarter of 1978. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have been faster than the annual rate of 8.0 percent recorded in the third and fourth quarters of 1978.

Staff projections of growth in output over the four quarters of 1979 had been reduced somewhat from those prepared for the February meeting, in large part because of a reduction in the expected rate of expansion in the current quarter. The projections continued to suggest sluggish growth during the second half of the year. The rise in average prices was projected to remain rapid, and the rate of unemployment was expected to increase somewhat from its current level.

The dollar value of total retail sales rose slightly further in January and February, following several months of sizable gains, but sales in real terms apparently declined. Unit sales of new automobiles for the two months were just above the pace in the second half of 1978.

The index of industrial production was unchanged in January and increased 0.3 percent in February, following advances in the preceding three months that averaged about 0.7 percent. The slowdown appeared to be caused in part by adverse weather. Total nonfarm payroll employment, and also its manufacturing component, expanded appreciably further in the two months, although the increases were somewhat below the average monthly gains during the fourth quarter. The rate of unemployment was 5.7 percent in February, little changed from other recent months.

Total private housing starts fell sharply in January and declined further in February to an annual rate of 1.4 million units. In January total sales of new and existing single-family houses declined substantially.

The latest survey by the Department of Commerce of business plans, taken in late January and February, suggested that spending for plant and equipment would expand 11.3 percent in 1979, virtually the same as the gain that had been indicated by the December survey. The increase in 1978 was estimated to have been 13.3 percent. Manufacturers' new orders for nondefense capital goods advanced sharply in January after having risen considerably on balance during the fourth quarter.

The index of average hourly earnings of private nonfarm production workers rose at an annual rate of 4.3 percent in February, following increases averaging about 8.5 percent in the preceding four months. In some industries with relatively low wage rates, hourly earnings had increased sharply in January, when increased minimum wages became effective, and then changed little in February.

The trade-weighted value of the dollar against major foreign currencies had not changed on balance since the February 6 meeting of the Committee. The U.S. merchandise trade deficit rose sharply in January, but revised data suggested a smaller deficit for the fourth quarter of 1978 than had been published earlier. Imports, especially of oil, increased sharply in January, while exports declined slightly.

In January and February growth of total credit at U.S. commercial banks accelerated considerably from its reduced pace during late 1978. Expansion in business loans was unusually strong, and banks also added substantially to their holdings of securities.

M-1 declined in both January and February, M-2 changed little, and M-3 grew at a relatively slow rate. With interest rates remaining high, the behavior of all three monetary aggregates was affected by unusually large shifts of funds from deposits to money market mutual funds and other liquid assets. The weakness in M-1 also reflected the effects of continuing movements of funds from demand deposits to savings deposits associated with the recently authorized automatic transfer service (ATS) and negotiable orders of withdrawal (NOW) accounts in New York State.

Banks and thrift institutions financed credit expansion mainly through net additions to outstanding six-month money market certificates and large-denomination certificates of deposit, which are not subject to fixed ceilings on interest rates. Inflows of time and savings deposits subject to fixed rate ceilings continued to be inhibited by the availability of higher-yielding investment alternatives. Overall, inflows of interest-bearing deposits included in M-2 and M-3 remained at reduced levels. During the two-month period, banks obtained a sizable volume of funds from nondeposit sources and from repayments by foreign branches of advances from domestic head offices.

At its February meeting, the Commitee had decided that open market operations should be directed at maintaining the weekly average federal funds rate at its current level of about 10 percent or slightly higher, provided that over the February–March period the annual rates of growth of M-1 and M-2, given approximately equal weight, appeared to be within ranges of 3 to 7 percent and 5 to 9 percent, respectively. If the two-month growth rates appeared to be outside the indicated limits, the Manager of the System Open Market Account was to notify the Chairman promptly, who would then consult with the Committee to determine whether the situation called for supplementary instructions.

At the beginning of March, projections suggested that over the February–March period M-1 would grow at a rate moderately below the lower limit of the range established by the Committee and M-2 would grow at a rate just below the lower limit of its range. In a special telephone meeting on March 2, the Committee instructed the Manager to continue aiming for a weekly average federal funds rate of 10 percent or slightly higher.

Most market interest rates rose moderately on balance during the intermeeting period, after having declined in January. Yields on corporate bonds and on three-month Treasury bills moved up to their highest levels of the current economic expansion. Yields on most short-term instruments remained below levels reached around the turn of the year, however, and primary market rates on home mortgage loans were little changed from their year-end levels.

Effective March 15, 1979, regulations governing ceiling rates on six-month money market certificates issued by financial institutions were changed. The new rules prohibit the use of compounding in calculating allowable returns and eliminate the ¼ point interest differential between commercial banks and thrift institutions when the ceiling rate is 9 percent or higher. The full differential will be in effect when the ceiling rate is 8¾ percent or less. When the six-month bill rate is between 8¾ and 9 percent, thrift institutions may pay a maximum 9 percent while commercial banks may pay up to the actual discount rate for six-month bills. These changes were designed to reduce somewhat the cost of money market certificates and to moderate the flow of funds into thrift institutions while permitting them to remain competitive over the longer run in attracting funds for housing.

In the Committee's discussion of the current economic situation, attention was drawn to the more rapid expansion in output of goods and services in the fourth quarter of 1978 than had been anticipated. The Commerce Department had just released a second upward revision in its estimate of growth in real gross national product in that quarter, and it was observed that the rate of resource utilization therefore was higher than had been thought earlier, accounting in part for the recent intensification of upward pressures on prices.

At the same time, it was noted, developments since the turn of the year were apparently mixed, contributing to increased uncertainty. Specifically, such indicators of business expenditures as new orders for capital goods, inventory investment, and short-term borrowing had been strong, and the demand for labor had remained bouyant. On the other hand, growth in personal income had weakened, retail sales had declined in real terms despite renewed strength in unit sales of new automobiles, and both the drop in housing starts and the sluggish performance of industrial output seemed to be attributable only in part to adverse weather.

Many members of the Committee thought that the staff was overly optimistic in projecting continued, if sluggish, growth in real GNP throughout the second half of 1979; they believed that the chances of a recession beginning before the end of the year or in early 1980 were fairly high. The recent increase in the price of oil, the acceleration of the overall rise in prices, and the sluggish growth of the monetary aggregates over the latest five months were cited among the factors that increased the probability of recession. The observation also was made that if a recession developed, it was likely to be moderate and short-lived.

Some concern was expressed that, in part because of the uncertain outlook for supplies and prices of some commodities, businesses might now be trying to raise their investment in both inventories and plant and equipment, thereby intensifying inflationary pressures currently and increasing both the chances and the probable severity of recession later. It was observed, however, that the current accumulation of inventories, to the extent that it reflected rebuilding of stocks drawn down in the fourth quarter and hedging against possible strikes, represented prudent business behavior and not a major shift away from the cautious attitudes that had prevailed for some time. With respect to plant and equipment, expenditures would be spread over a period when overall activity was not expected to be expanding rapidly, and subsequently the expenditures would yield additions to capacity and gains in productivity.

The members expressed some differences of opinion concerning prospects for prices. A significant easing from the rapid rise of recent months was suggested, to the extent that recent increases in prices represented temporary factors or were made in anticipation of possible price and wage controls. Moreover, slackening of economic activity later in the year could be expected to slow the rise in prices generally. The view was also expressed, however, that inflation would remain rapid even during a recession. In any case, it was observed, a long lag could be expected in the response of prices to the additional measures of restraint imposed toward the end of 1978.

At its meeting on February 6, 1979, the Committee had agreed that from the fourth quarter of 1978 to the fourth quarter of 1979 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1, 1½ to 4½ percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. The associated range for the rate of growth in commercial bank credit was 7½ to 10½ percent. It had also been agreed that the longer-run ranges, as well as the particular aggregates for which such ranges were specified, would be reconsidered in July or at any time that conditions might warrant.

In contemplating policy for the period immediately ahead, the Committee continued to face unusual uncertainties concerning the forces affecting monetary growth. A staff analysis had suggested that M-1 was likely to expand in March, contributing to a pickup in growth of M-2. Nevertheless, M-1 was expected to register a decline in the first quarter, on a quarterly average basis. It was estimated that shifts of funds from demand deposits to savings accounts with automatic transfer services and to the NOW accounts in New York had depressed growth of M-1 by about 3 percentage points in the quarter. Moreover, it appeared that growth of both M-1 and M-2 had been affected by a downward shift in the public's demand for money in relation to income, although the magnitude of that effect was uncertain.

In the Committee's discussion, several members stressed their concern about the shortfall in monetary growth relative to the longer-run ranges that the Committee had adopted at its meeting on February 6, 1979, especially in view of the risks that a recession might develop in the period ahead. Supporting the goal of bringing growth of the monetary aggregates up into those ranges over a number of months, particularly because of the uncertainty about the outlook for economic activity, they favored directing operations in the period just after the meeting toward maintaining the money market conditions currently prevailing—as indicated by a federal funds rate of 10 percent or slightly higher—or toward a little less firmness in those conditions. The objective of operations later in the period before the next regular meeting of the Committee would be determined on the basis of the incoming evidence on the behavior of the monetary aggregates, although it was suggested that the Committee consult again before any change was made in the operational objective for the funds rate.

Other members of the Commitee emphasized the recent acceleration of the rise in prices, and they believed that action should be taken to demonstrate that inflation represented the greatest risk to economic stability over a period of time. Accordingly, they advocated directing initial operations in the period ahead toward a slight firming in money market conditions, represented by an increase in the objective for the federal funds rate to about 10¼ percent. Their prescription for operations later in the period called for holding the objective for the funds rate within a relatively narrow range.

At the conclusion of the discussion the Committee decided that ranges of tolerance for the annual rates of growth in M-1 and M-2 over the March–April period should be 4 to 8 percent and 3½ to 7½ percent, respectively. The Manager was instructed to direct open market operations initially toward maintaining the federal funds rate at about the current level, represented by a rate of about 10 percent or slightly higher. Subsequently, if the two-month growth rates of M-1 and M-2 appeared to be significantly above or below the midpoints of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 9¾ to 10½ percent. It was also agreed that in assessing the behavior of the aggregates, the Manager should give approximately equal weight to the behavior of M-1 and M-2.

As is customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that in the current quarter growth in real output of goods and services has moderated from the rapid rate in the last quarter of 1978, while the rise in prices has accelerated. In January and February the dollar value of total retail sales rose slightly further. Nonfarm payroll employment continued to expand over the two-month period, but in part because of severe weather, industrial production increased little. The unemployment rate in February, at 5.7 percent, was virtually unchanged from its level in January and in late 1978. Over recent months, on balance, the index of average hourly earnings has continued to rise rapidly.
>
> The trade-weighted value of the dollar against major foreign currencies has shown no net change since early February. The U.S. trade deficit in January was larger than the monthly average in the fourth quarter of 1978, to some extent because of a bulge in imports of oil.
>
> M-1 declined in both January and February, in part because of the continuing effects of the growth of the automatic transfer service. With market interest rates continuing high, inflows of the interest-bearing deposits included in M-2 and M-3 remained at reduced levels, despite substantial flows into money market certificates at both commercial banks and nonbank thrift institutions. Over the two months, consequently, M-2 changed little and M-3 grew at a relatively slow rate. The behavior of all three monetary aggregates was affected by shifts of funds from deposits to money market mutual funds and other liquid assets. Most market interest rates have risen in recent weeks, after having declined in January.
>
> Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, it is the policy of the Federal Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. The Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent, respectively. The associated range for bank credit is 7½ to 10½ percent. These ranges will be reconsidered in July or at any time as conditions warrant.
>
> In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to the program for supporting the foreign exchange value of the dollar and to developing conditions in domestic financial markets. Early in the period

before the next regular meeting. System open market operations are to be directed at maintaining the weekly average federal funds rate at about the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 9¾ to 10½ percent. In deciding on the specific objective for the federal funds rate the Manager shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the March–April period of M-1 and M-2 and the following ranges of tolerance: 4 to 8 percent for M-1 and 3½ to 7½ percent for M-2. If, with approximately equal weight given to M-1 and M-2, their rates of growth appear to be significantly above or below the midpoints of the indicated ranges, the objective for the funds rate is to be raised or lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager will promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Miller, Balles, Black, Mayo, Partee, and Mrs. Teeters. Votes against this action: Messrs. Volcker, Coldwell, Kimbrel, and Wallich.

Messrs. Volcker, Coldwell, Kimbrel, and Wallich dissented from this action because they favored a somewhat more restrictive policy posture, in view of strong inflationary forces reinforced by pressure on capacity in some industries and in view of the near-term potential for excessive inventory demands. They believed that, despite uncertainty about prospects for economic activity later this year, some additional firming in money market conditions at this time was appropriate to help in containing inflationary pressures and maintaining renewed confidence in the dollar in foreign exchange markets.

2. Review of Continuing Authorizations

This being the first regular meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1979, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the authorization for domestic open market operations, the authorization for foreign currency operations, and the special authorization relating to System obligations in Swiss francs in the forms in which they were then outstanding.

> Votes for these actions: Messrs. Miller, Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Mrs. Teeters, and Mr. Wallich. Votes against these actions: None.

In reviewing the authorization for domestic open market operations, the Committee took special note of paragraph 3, which authorizes the Reserve Banks to engage in the lending of U.S. government securities held in the System Open Market Account under such instructions as the Committee might specify from time to time. That paragraph had been added to the authorization on October 7, 1969, on the basis of a judgment by the Committee that in the existing circumstances such lending of securities was reasonably necessary to the effective conduct of open market operations and to the implementation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager that the lending activity in question remained reasonably necessary and that, accordingly, the authorization should remain in effect subject to review in six months.

3. Foreign Currency Directive

The Committee reaffirmed the foreign currency directive, with a technical modification. In paragraphs 1 and 4(c), the word "proposed" was deleted preceding the references to International Monetary Fund (IMF) Article IV in recognition that Article IV had been put in place since the Committee had last conducted its annual review of all its continuing authorizations and directives. As amended paragraphs 1 and 4(c) read as follows:

> 1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.
>
> 4. System foreign currency operations shall be conducted:
>
> * * * * *
>
> C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

Votes for this action: Messrs. Miller, Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

4. Procedural Instructions with Respect to Foreign Currency Operations

In December 1976 the Committee agreed upon procedural instructions intended to clarify the respective roles of the Committee, the Foreign Currency Subcommittee, and the Chairman in providing guidance to the Manager of the System Open Market Account with respect to proposed or ongoing foreign currency operations under the authorization for foreign currency operations and the foreign currency directive. Under paragraphs 1A and 1B of the procedural instructions, the Manager is required to obtain clearance from the Foreign Currency Subcommittee (or from the Chairman, if consultation with the Subcommittee is not feasible in the time available) for operations in excess of specified daily and intermeeting limits. Under paragraph 2A, the Manager is required to obtain clearance from the Committee (or from the Foreign Currency Subcommittee or from the Chairman, if consultation with the Committee is not feasible in the time available) for operations in excess of a specified intermeeting limit. In order to facilitate implementation of the broad Government program to strengthen the dollar in foreign markets announced on November 1, 1978, the daily and intermeeting limits were suspended.

At this meeting, in light of experience gained in conducting operations under procedural instructions, the Committee decided to reinstate limits under the procedural instructions and at the same time to modify them in order to provide more leeway for operations without formal consultations with the Foreign Currency Subcommittee or the Committee. In practice, the management of the System Open Market Account consults with members of the Subcommittee on a continuing basis.

The limit on daily changes in the System's overall open position in foreign currencies specified in paragraph 1A was raised from $100 million to $300 million, and the intermeeting limit was raised from $300 million to $600 million; the limit on daily changes in the System's net position in a single foreign currency specified in paragraph 1B was raised from $100 million to $150 million, or to $300 million when the operation is associated with repayment of swap drawings, and the intermeeting limit was eliminated. The Committee also raised from $500 million to $1.5 billion the intermeeting limit on changes in the System's overall open position in foreign currencies specified in paragraph 2A. The procedural instructions as amended read as follows:

> In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager of the System Open Market Account, shall be guided by the following procedural understandings with respect to consultations and clearance with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.
>
> 1. The Manager shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):
>
> A. Any operation that would result in a change in the System's overall open position in foreign currencies exceeding $300 million on any day or $600 million since the most recent regular meeting of the Committee.
>
> B. Any operation that would result in a change on any day in the System's net position in a single foreign currency exceeding $150 million, or $300 million when the operation is associated with repayment of swap drawings.
>
> C. Any operation that might generate a substantial volume of trading in a particular currency by the System, even though the change in the System's net position in that currency might be less than the limits specified in 1B.
>
> D. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) $200 million, or (ii) 15 percent of the size of the swap arrangement.
>
> 2. The Manager shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):
>
> A. Any operation that would result in a change in the System's overall open position in foreign currencies exceeding $1.5 billion since the most recent regular meeting of the Committee.
>
> B. Any swap drawing proposed by a foreign bank exceeding the larger of (i) $200 million or (ii) 15 percent of the size of the swap arrangement.

3. The Manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any operations that are not of a routine character.

> Votes for this action: Messrs. Miller, Volcker, Balles, Black, Kimbrel, Mayo, Partee, Mrs. Teeters, and Mr. Wallich. Vote against this action: Mr. Coldwell.

Mr. Coldwell dissented from this action because he believed that the new limit of $1.5 billion specified in paragraph 2A was too high. He preferred a limit of $1 billion.

5. Authorization for Domestic Open Market Operations

Paragraph 2 of the authorization for domestic open market operations specified a limit of $2 billion on Federal Reserve Bank holdings of special short-term certificates of indebtedness purchased directly from the Treasury. On March 29, 1979, the Committee voted to raise the limit to the statutory ceiling of $5 billion, effective immediately, for the period ending with the close of business on April 17, 1979, the date of the next scheduled meeting.

> Votes for this action: Messrs. Miller, Volcker, Balles, Black, Coldwell, Mayo, Partee, Mrs. Teeters, Messrs. Wallich, and Roos. Votes against this action: None. Absent: Mr. Kimbrel (Mr. Roos voted as alternate for Mr. Kimbrel).

The temporary debt ceiling of $798 billion was scheduled to expire at midnight on March 31, 1979, and the Congress was not expected to act on debt ceiling legislation before April 2, 1979. The Treasury had postponed several auctions of securities designed to raise funds to repay maturing debt and to meet cash outlays in early April. The Committee's action was taken on recommendation of Chairman Miller to provide maximum operating flexibility for the Treasury.

On April 2, 1979, the Committee voted to modify paragraph 1C of the authorization, effective immediately, for the period until the close of business on April 6, 1979, to permit arrangement of one-day repurchase agreements with dealers, in connection with special Treasury financings, at the rate at which the securities were auctioned. Under paragraph 1C, rates on repurchase agreements with dealers must be determined by competitive bidding, unless otherwise expressly authorized by the Committee.

Votes for this action: Messrs. Miller, Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

This action was taken on the recommendation of the management of the System Open Market Account. The management had advised that delay in enactment of a new temporary debt ceiling had created a severe cash problem for the Treasury, which might persist for some days. The Treasury planned to deal with the problem through the sale of sizable amounts of securities for payment on the day of the auction. However, dealers might experience difficulty in bidding in the auction, because awards of the securities might be made too late in the day to allow the dealers to make normal financing arrangements. The Committee's action provided assistance in marketing such securities by assuring dealers that in the event financing proved to be difficult to obtain for the first day on which the securities were issued, financing could be made available for one day through repurchase agreements at the same rate at which the securities were sold.

MEETING HELD ON APRIL 17, 1979

1. Domestic Policy Directive

The information reviewed at this meeting suggested that growth in real output of goods and services had slowed substantially in the first quarter of 1979 from the rapid annual rate of 6.9 percent in the fourth quarter of 1978. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have increased considerably faster in the first quarter than in the prior two quarters, when they rose at an annual rate of 8.0 percent.

The staff projection of growth in output over the four quarters of 1979 had been reduced slightly from the one prepared a month earlier. The reduction reflected a revised estimate of much slower expansion for the first quarter, when economic activity was adversely affected by unusually severe weather; this slower growth was expected to be offset only in part by some rebound in the second quarter. The projection continued to suggest sluggish growth in the third and fourth quarters. The rise in average prices was projected to remain rapid, and the rate of unemployment was expected to move up moderately as the year progressed.

The dollar value of total retail sales expanded considerably in March after having changed little earlier in the year when the weather was an adverse influence. For the first quarter as a whole, retail sales declined in real terms, following a sharp advance in the fourth quarter of 1978. Unit sales of new automobiles rose substantially in March, reflecting large increases in sales of small domestic and foreign models; the first-quarter pace of sales was somewhat above that in the previous quarter.

The index of industrial production rose 0.8 percent in March following two months of virtually no change; the rate of advance for the first quarter was only about half that for the second half of 1978.

In March total nonfarm payroll employment registered another large gain, which included a further sizable increase in manufacturing. The rate of unemployment remained at 5.7 percent, about the level prevailing since midsummer 1978.

Total private housing starts were expected to rebound in March, after a sharp decline earlier in the year in part because of the weather; but scattered market reports suggested that the rebound would be limited. It appeared likely that the annual rate for the quarter as a whole would be well below the totals for 1977 and 1978. In February total sales of new and existing single-family houses fell for the fourth consecutive month.

The index of average hourly earnings of private nonfarm production workers, which had increased 8½ percent during 1978, rose at an annual rate of about 8¾ percent during the first quarter. The recent rise was affected by the January advance in the minimum wage.

Producer prices of finished goods and of materials increased sharply further in March. Over the first quarter, prices of finished goods rose at an annual rate of almost 14 percent, compared with a rate of about 9 percent over the preceding six months. Consumer prices advanced at an annual rate of about 12 percent over the first two months of the year, compared with a rate of 8½ percent during the second half of 1978. Particularly large increases in retail prices of food and energy and in homeownership costs contributed to the acceleration.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen about 1¼ percent since the March 20 meeting of the Committee. The strength of the dollar was especially pronounced against the yen and, to a lesser extent, against the Swiss franc and the mark. The U.S. merchandise trade deficit declined in February to about half the large deficit in January; the average for the two months was somewhat above the monthly average in the fourth quarter of 1978.

Total credit at U.S. commercial banks expanded at a much slower pace in March than in January and February, as growth in real estate and business loans moderated considerably and banks reduced their holdings of securities. However, commercial paper issued by nonfinancial firms increased sharply, and the overall rate of short-term business borrowing was maintained. For the first quarter as a whole, nonfinancial businesses substantially increased their borrowing in short- and intermediate-term markets. At the same time, they reduced their public offerings of bonds to the smallest quarterly total since 1973.

The narrowly defined money supply, M-1, grew somewhat in March after having declined in both January and February. The broader monetary aggregates, M-2 and M-3, expanded at relatively slow rates during the month, although growth in both measures picked up somewhat from the pace earlier in the year. The performance of M-1 reflected in part the continuing impact of movements of funds from demand deposits to savings deposits associated with the growth of the automatic transfer service (ATS) and of negotiable order of withdrawal (NOW) accounts in New York State. With market interest rates remaining at high levels, expansion in M-2 and M-3 was restrained by relatively limited inflows of interest-bearing deposits, despite further large flows into money market certificates at both commercial banks and nonbank thrift institutions. The behavior of all three monetary aggregates was still being influenced by shifts of funds from deposits to money market mutual funds and other high-yielding market instruments. From the fourth quarter of 1978 to the first quarter of 1979, M-1 declined at an annual rate of 2½ percent, while M-2 and M-3 expanded at annual rates of about 1½ percent and 4½ percent respectively.

In March, banks increased sharply further their reliance on nondeposit sources to supplement their loanable funds, including Eurodollars and repurchase agreements. However, a substantial decline in large-denomination time deposits outstanding during the month partially offset the increase in nondeposit sources of funds.

At its meeting on March 20 the Committee had decided on ranges of tolerance for the annual rates of growth in M-1 and M-2 during the March–April period of 4 to 8 percent and 3½ to 7½ percent respectively. The Committee had agreed that early in the coming intermeeting period operations should continue to be directed toward maintaining the weekly average federal funds rate at around 10 percent or slightly higher. Subsequently, if the two-month growth rates of M-1 and M-2, given approximately equal weight, appeared to be significantly above or below the midpoints of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 9¾ to 10½ percent.

In late March and early April staff projections suggested that over the March–April period M-1 would grow at a rate close to the lower limit of the range established by the Committee and M-2 at a rate just below the midpoint of its range. These projections were not viewed as sufficiently weak in relation to the Committee's ranges to call for a change in the federal funds rate objective of 10 percent or slightly higher.

Short-term interest rates fluctuated over a fairly wide range during the intermeeting period and generally rose a little on balance. Rates on short-term Treasury bills were under particular pressure in late March and early April from sales of bills by foreign official institutions. Long-term interest rates and mortgage yields also edged up on balance during the period.

In the Committee's discussion of the current economic situation and outlook, attention was drawn to the indications of considerably slower growth in real output of goods and services in the first quarter of 1979 than had appeared likely earlier. It was noted that residential construction and consumer spending for goods had weakened more than had been anticipated, and that such expansion as had occurred in the first quarter apparently reflected a substantial acceleration in the growth of business inventories. With respect to inventories, the observation was made that the overall rate of accumulation in the first two months of the year was not as high as had been feared earlier and that it seemed to be attributable largely to transitory influences.

The members in general anticipated relatively slow growth in economic activity for the near term, and some believed that growth could remain at a sluggish pace for an extended period. In view of business-cycle history, however, a number of members expressed doubt that growth could be sustained at a slow pace for many quarters. Many continued to believe that the probabilities of a downturn in activity before the end of 1979 were fairly high, especially in view of the unusually long duration of the current business expansion. It was also suggested by some that a pickup in activity, based in part on a surge in business demands for equipment and for inventories, might occur and persist for a time before an eventual downturn.

Various reasons were cited for thinking that economic activity might be near a cyclical turning point. Foremost among them was the dampening effect on expenditures for consumption and housing arising from the recent slowing of growth in personal income, from the impact of inflation on the purchasing power of personal income and on consumer wealth, and from the high level of consumer debt. Continued weakness in consumer spending might result in an unwanted increase in inventories. It was suggested that the relatively high rates of resource utilization and the recent strong preference in the business community to incur short-term rather than long-term debt were characteristic features of the late stages of a business expansion. And it was observed that over recent quarters the total of funds raised by nonfinancial sectors of the economy was estimated to have fallen considerably in relation to nominal gross national product, indicating a weakening in the overall demand for credit.

As at other recent meetings, great concern was expressed about inflation. It was observed that the rate of increase in prices had tended to accelerate from year to year recently and that there were few if any indications of a near-term reversal in that momentum. Forecasters in general had failed to anticipate the degree of the rise in prices, and some differences of opinion were expressed about the prospects for abatement in the rate of inflation in the latter part of 1979.

At its meeting on February 6, 1979, the Committee had agreed that from the fourth quarter of 1978 to the fourth quarter of 1979 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1, 1½ to 4½ percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. The associated range for the rate of growth in commercial bank credit was 7½ to 10½ percent. It had also been agreed that the longer-run ranges, as well as the particular aggregates for which such ranges were specified, would be reconsidered in July or at any time that conditions might warrant.

In contemplating policy for the period immediately ahead, the Committee continued to face uncertainties concerning the forces affecting monetary growth. A staff analysis had suggested that M-1, after having registered a decline in the first quarter, would expand over the April–May period, reflecting in part rapid growth in nominal GNP. It was anticipated that shifts of funds from demand deposits to savings accounts with automatic transfer services and to NOW accounts in New York State, which were estimated to have depressed growth of M-1 by about 3 percentage points from the fourth quarter of 1978 to the first quarter of 1979, would have a somewhat less dampening effect on growth of M-1 in the period immediately ahead than in the first quarter. Moreover, it was assumed that the public's demand for money in relation to income would continue to shift downward, but at a sharply slower pace than in recent months. Thus, the rise in the income velocity of M-1 was expected to be relatively rapid, but less than the unusually rapid rate of the two most recent calendar quarters.

In the Committee's discussion at this meeting, as at the meeting on March 20, 1979, several members stressed their concern about the degree of the shortfall in monetary growth relative to the longer-run ranges that the Committee had adopted at its meeting on February 6. It was observed that restrictive policy actions taken in late 1978 had contributed to the recent slowing of monetary growth (after allowance for the impact of special factors) and apparently also to a moderation of the expansion in economic activity. Now, some easing in money market conditions might be appropriate, with the objective of raising growth of the monetary aggregates over a number of months into the longer-run ranges and of helping to support economic activity later in the year.

However, an easing in money market conditions was generally regarded as premature in the current environment of rapidly rising prices, although it was felt that monetary policy could have little if any immediate effect on prices of food, energy, and housing items, which had been largely responsible for the recent acceleration of the overall rise. Given the staff expectation of a near-term strengthening of monetary growth, most members advocated or found acceptable a policy of directing operations early in the period immediately ahead toward maintaining the money market conditions currently prevailing, as represented by a federal funds rate of 10 percent or slightly higher, and of having the objective for operations later in the period before the next regular meeting determined on the basis of incoming evidence on rates of growth of the monetary aggregates over the April–May period in relation to the growth rates currently anticipated.

A few members advocated an immediate increase in the objective for the federal funds rate to 10¼ percent or 10½ percent and a range for subsequent operations providing for a further increase in the funds rate if incoming evidence suggested relative strength in growth of the monetary aggregates. They stressed the recent acceleration in the rise in prices and high rates of resource use, and they continued to believe that action should be taken to demonstrate that inflation represented the greatest risk to economic stability over a period of time. In their view, inflationary expectations had increased over recent months while interest rates on balance had changed little. In the current circumstances, moreover, they attached little significance to the behavior of the monetary aggregates.

At the conclusion of the discussion the Committee decided that ranges of tolerance for the annual rates of growth in M-1 and M-2 over the April–May period should be 4 to 8 percent and 4 to 8½ percent respectively. The Manager was instructed to direct open market operations initially toward maintaining the federal funds rate at about the current level, represented by a rate of about 10 percent or slightly higher. Subsequently, if the two-month growth rates of M-1 and M-2 appeared to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 9¾ to 10½ percent. It was also agreed that in assessing the behavior of the aggregates, the Manager should give approximately equal weight to M-1 and M-2.

As is customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that in the first quarter of 1979 growth in real output of goods and services slowed substantially from the rapid rate in the last quarter of 1978, while the rise in prices accelerated. In March the dollar value of total retail sales, industrial production, and nonfarm payroll employment expanded considerably, but part of the strength was attributable to recovery from the effects of severe weather in the preceding two months. For the first quarter as a whole, retail sales in real terms declined somewhat, following a sharp increase in the fourth quarter of 1978, and the advance in industrial output slowed appreciably. Growth in employment remained strong in the quarter, however, and the unemployment rate in March, at 5.7 percent, was virtually unchanged from its level in late 1978 and the first two months of 1979. Over recent months, broad measures of prices have increased at a faster pace than during 1978, and the index of average hourly earnings has continued to rise rapidly.
>
> The trade-weighted value of the dollar against major foreign currencies has risen over the past four weeks, with the dollar showing particular strength against the yen, the Swiss franc, and the mark. The U.S. trade deficit in February was about half the size of the large deficit in January, but the average for the two months was above the monthly average in the fourth quarter of 1978.

M-1 increased slightly in March after having declined in both January and February. With market interest rates continuing high, inflows of the interest-bearing deposits included in M-2 and M-3 remained at reduced levels, despite substantial flows into money market certificates at both commercial banks and nonbank thrift institutions, and the broader monetary aggregates continued to grow at relatively slow rates. From the fourth quarter of 1978 to the first quarter of 1979, M-1 declined at an annual rate of about 2½ percent, in part because of the effects of the growth of the automatic transfer service, and M 2 and M-3 grew at rates of about 1½ percent and 4½ percent respectively. The behavior of all three monetary aggregates was affected by shifts of funds from deposits to money market mutual funds and other liquid assets. Since mid-March, market interest rates generally have risen somewhat, on balance.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, it is the policy of the Federal Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. The Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent respectively. The associated range for bank credit is 7½ to 10½ percent. These ranges will be reconsidered in July or at any time as conditions warrant.

In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to the program for supporting the foreign exchange value of the dollar and to developing conditions in domestic financial markets. Early in the period before the next regular meeting, System open market operations are to be directed at maintaining the weekly average federal funds rate at about the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 9¾ to 10½ percent. In deciding on the specific objective for the federal funds rate the Manager shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the April–May period of M-1 and M-2 and the following ranges of tolerance: 4 to 8 percent for M-1 and 4 to 8½ percent for M-2. If, with approximately equal weight given to M-1 and M-2, their rates of growth appear to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate is to be raised or lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager will promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

> Votes for this action: Messrs. Miller, Balles, Black, Kimbrel, Mayo, Partee, and Mrs. Teeters. Votes against this action: Messrs. Volcker, Coldwell, and Wallich.

Messrs. Volcker, Coldwell, and Wallich dissented from this action because they continued to favor a somewhat more restrictive policy posture, in view of strong inflationary forces reinforced by pressure on capacity in some industries. They believed that, despite uncertainty about prospects for economic activity later this year, some additional firming in money market conditions at this time would help in limiting inflationary pressures by curbing inflationary expectations quickly.

On April 27 the Committee held a telephone conference to review the situation and to consider whether supplementary instructions were needed. However, no change was made in the domestic policy directive adopted at the meeting on April 17.

2. Authorization for Foreign Currency Operations

On May 9 the Committee voted to amend paragraph 5 of the authorization for foreign currency operations, effective immediately, to authorize purchases of U.S. government securities from foreign central banks under agreements for repurchase of such securities within 30 calendar days, when appropriate in connection with arrangements to provide investment facilities for foreign currency holdings. Paragraph 5 as amended reads as follows:

> 5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

> Votes for this action: Messrs. Miller, Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

This action was taken on the recommendation of the Manager of the System Open Market Account to provide an additional investment mechanism for System balances of foreign currencies. The mechanism involved (1) a transaction with a foreign central bank in which the System would sell a foreign currency spot and buy it forward; and (2) a repurchase agreement in which the System would acquire U.S. Treasury securities from the foreign central bank for the same period of time involved in the foreign currency transaction.

MEETING HELD ON MAY 22, 1979

Domestic Policy Directive

The information reviewed at this meeting suggested a moderate pickup in growth of real output of goods and services in the current quarter from the sharply reduced pace in the first quarter; then, the annual rate of expansion had slowed to only 0.4 percent, from 6.9 percent in the preceding quarter, in part because unusually severe weather adversely affected private and public construction activity. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to be rising as rapidly as they did in the first quarter, when the annual rate was about 10 percent, and well above the rate in the third and fourth quarters of 1978.

Staff projections continued to suggest sluggish growth in real output during the year ahead. The rise in average prices during the year was projected to remain rapid, but not so rapid as it was estimated to be over the first half of 1979. The rate of unemployment was expected to move up gradually.

In April the index of industrial production fell 1 percent and growth in nonfarm payroll employment slowed substantially from the rapid pace in the previous six months, in large part owing to effects of a work stoppage in the trucking industry early in the month. The unemployment rate in April was 5.8 percent, about the level prevailing since midsummer 1978.

The dollar value of total retail sales increased somewhat further in April, but apparently average prices rose at a faster pace and in real terms retail sales extended their first-quarter decline. Unit sales of new automobiles declined appreciably in April, to about the average rate in the first quarter, although sales of small domestic and foreign models remained strong.

Total private housing starts edged down in April to an annual rate of 1¾ million units, following the partial recovery in March from the sharp, weather-related decline earlier in the year. In both 1977 and 1978, housing starts had totaled about 2 million units. In mortgage markets, interest rates generally had risen further in recent weeks, and available information suggested that mortgage commitments outstanding at savings and loan associations continued to decline in April.

The value of manufacturers' new orders for durable goods fell sharply in April, and declines were widespread among industry and product groupings. The decrease in orders for nondefense capital goods was especially large, following three months of sizable advances.

The index of average hourly earnings of private nonfarm production workers increased at an annual rate of about 8¼ percent during the first four months of 1979, the same rate as during 1978. Hourly compensation in the nonfarm business sector, including the effects of increases in social security taxes at the beginning of 1979, rose at an annual rate of 10¼ percent in the first quarter, up marginally from the average rate in 1978. In the first quarter, however, the rise in unit labor costs accelerated to an annual rate of 15 percent from 9 percent during 1978, as productivity declined.

Indexes for producer prices of finished goods and of materials continued to rise sharply in April, despite declines in average prices of both consumer foods and crude foods. During the first four months of the year, producer prices of finished goods rose at an annual rate of about 13 percent, compared with about 9¼ percent during 1978. Increases in prices in the four-month period were widespread.

During the first quarter, the consumer price index also rose at an annual rate of 13 percent, compared with 9 percent in 1978. The acceleration was attributable largely to energy items and foods.

In foreign exchange markets demand for the dollar remained strong in the five-week period after the April meeting of the Committee, partly in response to announcement of a further reduction in the U.S. merchandise trade deficit in March and to indications of persistence of increased rates of inflation abroad. The strength was reflected in a further rise of about 1¼ percent in the trade-weighted value of the dollar against major foreign currencies and in substantial sales of dollars by central banks. The trade deficit in the first quarter as a whole was slightly lower than in the preceding quarter and considerably lower than in earlier quarters of 1978.

Total credit outstanding at U.S. commercial banks grew rapidly in April, as it had on balance during the first quarter of the year. The April growth was led by a rebound in expansion of business loans, which had slackened in March from rapid rates in January and February. Commercial paper issued by nonfinancial firms increased sharply in April for the second consecutive month.

The narrowly defined money supply, M-1, expanded sharply in April, after having declined on the average in the first quarter. A substantial part of the April increase was attributable to delays in the Treasury's processing of checks in payment of federal income taxes and to a bunching of tax refunds. Reflecting in part the behavior of M-1, growth of M-2 and M-3 accelerated to rapid rates in April from relatively slow rates in the first quarter. Inflows to commercial banks of the interest-bearing deposits included in M-2 rose substantially in April, following several months of considerably reduced growth, as net flows into money market certificates increased while outflows of savings deposits slowed. At nonbank thrift institutions, on the other hand, net flows into money market certificates moderated in April, and overall inflows of funds to these institutions receded from an already reduced pace in the first quarter.

At its meeting on April 17 the Committee had decided on ranges of tolerance for the annual rates of growth in M-1 and M-2 during the April–May period of 4 to 8 percent and 4 to 8½ percent respectively. The Committee had agreed that early in the coming intermeeting period operations should continue to be directed toward maintaining the weekly average federal funds rate at around 10 percent or slightly higher. Subsequently, if the two-month growth rates of M-1 and M-2, given approximately equal weight, appeared to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 9¾ to 10½ percent.

In late April projections suggested that over the April–May period M-1 and M-2 would grow at rates that were close to or above the upper limits of their respective ranges. In accordance with the directive issued at the meeting on April 17, operations were directed toward an increase in the federal funds rate to a level of about 10¼ percent. Subsequently, in early May, the two-month rates of growth projected for M-1 and M-2 were somewhat stronger. However, financial markets appeared to be in a sensitive state, and recent developments affecting supplies and distribution of energy were adding to uncertainties about economic prospects. Moveover, it appeared that the rapid pace of monetary growth was attributable in part to transitory forces. In the circumstances, and in view of the directive's instruction to give due regard to developing conditions in domestic financial markets, the objective for the federal funds rate was maintained at 10¼ percent.

Short-term interest rates in general changed little on balance during the intermeeting period. Declines following the April meeting were subsequently reversed in reaction to the rise in the federal funds rate and to large sales of Treasury bills by foreign monetary authorities in association with their sales of dollars in foreign exchange markets. Yields on longer-term obligations rose somewhat during the period, apparently because of worsening expectations with regard to inflation. Mortgage yields were also influenced by the further slowdown of inflows of funds to thrift institutions.

In the Committee's discussion of the economic situation and outlook, the members in general agreed that the pace of expansion in economic activity had slowed significantly, apart from the effects of severe weather in the first quarter and of the work stoppage in the trucking industry early in the current quarter. Much of the latest information on developments in April—particularly manufacturers' new orders for durable goods, housing starts, industrial production, personal income, and retail sales—pointed to a weakening in demands and activity. Moreover, uncertainties concerning supplies of gasoline, as well as the overall price effects of the sharp increases in costs of energy, could be expected to dampen demands. A number of members now thought that a cyclical peak in activity might well be registered in the current quarter.

Despite the current risks of recession in activity, the slowing of the expansion from the excessively rapid pace in late 1978 was regarded as a desirable development, in view of the inflationary pressures that had been accumulating. It was noted that some reduction in growth of nominal GNP had been an objective of the restrictive policy actions taken last autumn, although the reduction had so far been reflected in growth of real GNP rather than in the rate of inflation.

Members continued to express great concern about inflation. Comments were made to the effect that inflationary expectations may have increased in recent months and that a risk of some acceleration of the rise in prices existed, along with the risk of recession, as the recent increases in the cost of oil worked their way through the price structure over a number of months. There was evidence that over time the rate of inflation had been less variable in the United States than in other industrial countries, suggesting that it would be more difficult to reduce the rate here. According to a number of economic projections, moreover, deceleration of inflation would be a slow and lengthy process. The observation was made that if the rate of inflation was not sharply reduced in the months immediately ahead, renewed expansion in business activity would begin with prices rising at a relatively fast pace.

At its meeting on February 6, 1979, the Committee had agreed that from the fourth quarter of 1978 to the fourth quarter of 1979 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1, 1½ to 4½ percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. The associated range for the rate of growth in commercial bank credit was 7½ to 10½ percent. It had also been agreed that the longer-run ranges, as well as the particular aggregates for which such ranges were specified, would be reconsidered in July or at any time that conditions might warrant.

In contemplating policy for the period immediately ahead, the Committee took note of a staff analysis suggesting that over the May–June period growth of M-1 would be quite slow, in part because of the unwinding of the transitory effects of federal income tax payments and refunds that had contributed to its exceptionally rapid growth in April. It was expected that growth of M-2 over the two-month period would be retarded by the slow growth of M-1 but that growth of the interest-bearing component would remain relatively strong. The analysis pointed out that if M-1 and M-2 grew at annual rates of about 3½ percent and 8 percent respectively over the six months from April to October, growth of the two monetary aggregates over the whole period from the fourth quarter of 1978 to October would be at the center of the longer-run ranges adopted by the Committee at its meeting in early February.

Most members of the Committee believed that, despite increasing signs of weakening in economic activity and the risks of recession, a general easing in monetary restraint at this time would be premature in view of the continuance of strong inflationary pressures. Given the staff expectations of slow growth in M-1 and M-2 over the May–June period, they favored a policy of directing open market operations early in the period immediately ahead toward maintaining the money market conditions currently prevailing, as represented by a federal funds rate of about 10¼ percent, and of having the objective for operations later in the period before the next meeting determined on the basis of incoming evidence on the behavior of the monetary aggregates in relation to that currently anticipated. In view of uncertainties concerning interpretation of credit conditions and monetary growth in the current environment, they also favored specifying unusually wide ranges for growth of M-1 and M-2 over the May–June period and giving greater weight than usual to money market conditions in the conduct of operations until the next meeting.

Two members of the Committee, stressing the signs of growing weakness in economic activity, favored easing policy and placing greater weight on the behavior of the monetary aggregates. Specifically, they advocated an immediate reduction in the objective for the federal funds rate to 10 percent in an effort to guard against a cumulative shortfall in monetary growth. On the other hand, one member advocated a more restrictive policy, represented initially by an increase in the objective for the funds rate to 10½ percent, believing that such a policy would have a beneficial impact on inflationary expectations and only a slight effect on the course of real economic activity.

At the conclusion of the discussion the Committee decided that ranges of tolerance for the annual rates of growth in M-1 and M-2 over the May–June period should be 0 to 5 percent and 4 to 8½ percent respectively. The Manager was instructed to direct open market operations initially toward maintaining the weekly average federal funds rate at about the current level, represented by a rate of 10¼ percent. Subsequently, if the two-month growth rates of M-1 and M-2 appeared to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 9¾ to 10½ percent, although it was understood that a reduction in the rate below 10 percent would not be sought until the Committee had an opportunity for further consultation. It was also agreed that in assessing the behavior of the aggregates, the Manager should give approximately equal weight to M-1 and M-2.

As is customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests a moderate pickup in growth of real output of goods and services in the current quarter from the sharply reduced pace in the first quarter, when public and private construction activity was adversely affected by unusually severe weather. In April, however, industrial production declined and growth in nonfarm payroll employment slowed, in large part owing to effects of a work stoppage in the trucking industry early in the month. The unemployment rate, at 5.8 percent, remained at about the level prevailing earlier in the year. The dollar value of total retail sales rose somewhat in April, although apparently by less than the increase in average prices. Over recent months, broad measures of prices have increased at a faster pace than during 1978, and the index of average hourly earnings has continued to rise rapidly.

Demand for the dollar has continued strong in exchange markets over the past five weeks, and the trade-weighted value of the dollar against major foreign currencies has risen further. The U.S. trade deficit declined further in March and was slightly lower in the first quarter as a whole than in the fourth quarter of 1978.

M-1 expanded sharply in April, after having declined in the first quarter, and M-2 and M-3 grew rapidly. The interest-bearing component of M-2 also grew rapidly, following several months of slow growth, as net flows into money market certificates at commercial banks increased while outflows of savings deposits slowed. At nonbank thrift institutions, net flows into money market certificates moderated, and overall inflows of funds receded from the already reduced pace of the first quarter. Since mid-April, short-term market interest rates have changed little, on balance; most longer-term rates have increased.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, it is the policy of the Federal Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on February 6, 1979, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent respectively. The associated range for bank credit is 7½ to 10½ percent. These ranges will be reconsidered in July or at any time as conditions warrant.

In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to the program for supporting the foreign exchange value of the dollar and to developing conditions in domestic financial markets. Early in the period before the next regular meeting, System open market operations are to be directed at maintaining the weekly average federal funds rate at about the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 9¾ to 10½ percent. In deciding on the specific objective for the federal funds rate the Manager shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the May–June period of M-1 and M-2 and the following ranges of tolerance: 0 to 5 percent for M-1 and 4 to 8½ percent for M-2. If, with approximately equal weight given to M-1 and M-2, their rates of growth appear to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate is to be raised or lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager will promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

> Votes for this action: Messrs. Miller, Volcker, Black, Coldwell, Kimbrel, Mayo, and Mrs. Teeters. Votes against this action: Messrs. Balles, Partee, and Wallich.

Messrs. Balles and Partee dissented from this action in view of indications that a cyclical peak might be near at hand. Thus, they favored a less restrictive policy posture, especially in view of the delayed impact of policy changes on the economy. In the present uncertain environment, they believed that some prompt easing in money market conditions, along with a greater emphasis on the behavior of the monetary aggregates in guiding the conduct of operations, would reduce the risk of a continuing shortfall in monetary growth and would tend to provide needed support to the economy later in the year.

Mr. Wallich dissented from this action because, in view of the strong inflationary pressures in the economy, he continued to favor a more restrictive policy posture. Believing that inflationary expectations had increased in recent months while interest rates had changed little, he thought that additional firming in money market conditions would have a favorable effect on such expectations and would have little effect on the course of real output.

Subsequent to the meeting, on June 15, incoming data indicated that M-1 and M-2 were growing at exceptionally rapid rates in early June, and projections suggested that for the May–June period both monetary aggregates would grow at annual rates above the upper limits of the ranges that had been specified by the Committee. Since the meeting on May 22 the Manager had been aiming for a weekly average federal funds rate of 10¼ percent. The behavior of the aggregates would have called for an increase in the objective for the funds rate toward the 10½ percent upper limit of its specified range. However, in view of many indications of weakening in economic activity, the difficulties of interpreting the behavior of the aggregates in the light of these circumstances, the condition of financial markets, and the general uncertainty about the economic outlook, Chairman Miller recommended that the Manager be instructed to continue to aim for a federal funds rate of about 10¼ percent.

On June 15, the Committee modified the domestic policy directive adopted at its meeting on May 22, 1979, to call for open market operations directed at maintaining the weekly average federal funds rate at about 10¼ percent.

> Votes for this action: Messrs. Miller, Balles, Black, Kimbrel, Mayo, Partee, Mrs. Teeters, and Mr. Timlen. Vote against this action: Mr. Coldwell. Absent: Messrs. Volcker and Wallich. (Mr. Timlen voted as alternate for Mr. Volcker.)

MEETING HELD ON JULY 11, 1979

Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services had declined somewhat in the second quarter when a slackening in demands was intensified by reduced supplies of motor fuels and higher energy prices; in the first quarter the expansion in economic activity had slowed sharply, to an annual rate of 0.8 percent. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have accelerated somewhat further in the second quarter, from an annual rate of about 10 percent in the first quarter and around 8¾ percent during 1978.

Staff projections suggested a further contraction in economic activity over the next few quarters and an upturn beginning in 1980. Over the year ahead the increase in average prices was projected to be moderately below its pace in the first half of 1979. The rate of unemployment was expected to rise substantially.

In June the dollar value of retail sales fell for the third consecutive month, and in real terms such sales were estimated to be about 6½ percent below their December 1978 peak. Unit sales of new automobiles declined further in June despite continued strength in sales of small domestic and foreign models.

In April and May total private housing starts were at an average annual rate of about 1¾ million units, up somewhat from the first quarter, when starts were depressed by unusually adverse weather conditions, but well below total starts in both 1977 and 1978. Combined sales of new and existing single-family homes in April and May were also above their first-quarter pace, but substantially below the peak rate in the fourth quarter of 1978.

The expansion in total nonfarm payroll employment slowed considerably during the second quarter to a pace well below that in the previous six months. Payroll employment in manufacturing declined in each month of the quarter, and the length of the average workweek fell appreciably from its relatively high first-quarter level. Nevertheless, the unemployment rate edged down in June to 5.6 percent, its lowest level since August 1974.

The index of industrial production rose 1.3 percent in May. The increase about offset a drop in April that was induced largely by a work stoppage in the trucking industry. The expansion in industrial production over the first five months of the year was less than 1 percent, compared with an increase of about 4 percent in the second half of 1978.

The latest survey of business plans taken by the Department of Commerce in late April and May suggested that spending for plant and equipment would expand 12.7 percent in 1979 as a whole; the survey taken three months earlier had suggested an increase of 11.3 percent. The new survey, like the earlier one, implied considerably more growth in the second half of the year than in the first half.

Manufacturers' new orders for nondefense capital goods picked up somewhat in May after having declined substantially in April. The machinery component of such orders—generally a good indicator of underlying trends in demand for business equipment—was up only slightly in May following a very large drop in April. Contract awards for commercial and industrial buildings—measured in terms of floor space—declined in May for the third consecutive month to a level well below the February peak.

Producer prices of finished goods and of materials rose much more rapidly in the first half of 1979 than during 1978. The increase in these indexes moderated in the second quarter, however, when prices of food products declined after having advanced at exceptional rates earlier in the year. Increases in prices of energy items were very rapid, especially in the second quarter.

The rise in the consumer price index accelerated to an annual rate of 13½ percent over the first five months of 1979 compared with a rise of 9 percent in 1978. Price increases were widespread but were especially pronounced among energy-related items. Homeownership costs and food prices also increased sharply, although the rise in foods moderated in May.

The index of average hourly earnings of private nonfarm production workers rose at an annual rate of about 5½ percent during the second quarter, down from increases averaging about 8½ percent during the prior two quarters. The moderation was concentrated in the trade and service sectors. Recent collective bargaining agreements in two major industries provided for large increases in worker compensation.

In foreign exchange markets the dollar came under downward pressure in mid-June following several months of relative strength; since then its value against major foreign currencies had fallen about 3 percent and central banks had made large purchases of dollars. The dollar's weakness appeared to have been related to expectations of easier monetary conditions in the United States at a time when money market conditions were being tightened in key foreign countries and to concerns about the effects of sharply rising oil prices. The U.S. trade deficit for April and May had widened somewhat from the first-quarter rate, reflecting a sizable increase in the value of oil and other imports and little change in the value of exports.

Total credit outstanding at U.S. commercial banks continued to expand rapidly in May and June, but the rate of growth for the two months combined was down somewhat from the average pace in earlier months of the year. Increases in bank loans during May and June were concentrated in the business and real estate categories. Commercial paper issued by nonfinancial firms rose considerably further over the two months.

The narrowly defined money supply, M-1, increased sharply in June and the broader measures of money, M-2 and M-3, also grew rapidly; expansion in all three measures, especially M-1, had slowed markedly in May following a surge in April. In June, inflows to commercial banks of interest-bearing deposits included in M-2 were large, as money market certificates expanded rapidly for the third consecutive month and savings deposits increased for the first time since September 1978. At nonbank thrift institutions, net inflows of funds were estimated to have picked up somewhat in June from a sharply reduced pace in May, even though net issuance of money market certificates by these institutions weakened further.

On a quarterly average basis, M-1 grew at an annual rate of about 7½ percent in the second quarter after a decline at a rate of about 2 percent in the first quarter; M-2 and M-3 grew at rates of about 8½ percent and 7¾ percent respectively in the second quarter, compared with rates of about 1¾ percent and 4¾ percent in the previous quarter. In the second quarter, banks increased considerably further their reliance on nondeposit sources such as repurchase agreements and Eurodollars to supplement their loanable funds. At the same time, they reduced the outstanding volume of large-denomination time deposits by more than the increase in funds from nondeposit sources.

At its meeting on May 22 the Committee had decided on ranges of tolerance for the annual rates of growth in M-1 and M-2 during the May–June period of 0 to 5 percent and 4 to 8½ percent respectively. The Committee had agreed that early in the coming intermeeting period, the Manager of the System Open Market Account should continue to direct operations toward maintaining the weekly average federal funds rate at around 10¼ percent. Subsequently, if the two-month growth rates of M-1 and M-2, given approximately equal weight, appeared to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 9¾ to 10½ percent.

Subsequent to the meeting, incoming data on the monetary aggregates led to progressively higher projections of growth in M-1 and M-2 over the May–June period. By mid-June the projections suggested growth rates that were above the ranges specified by the Committee. The behavior of the aggregates would have called for an increase in the objective for the federal funds rate toward the 10½ percent upper limit of its specified range. However, on June 15 the Committee modified the domestic policy directive adopted on May 22 and called for open market operations directed at maintaining the weekly average federal funds rate at about 10¼ percent. Federal funds traded somewhat above the Committee's objective in late June and early July, in response to pressures associated with unusual churning in the money market around the midyear bank statement date and the July 4 holiday.

Most interest rates other than the federal funds rate fell substantially on balance during the intermeeting period. The declines appeared to be in response to the growing evidence that economic activity had been weakening. Declines in Treasury bill rates were accentuated by large cash redemptions of maturing bills and by the resumption of sizable net purchases by foreign central banks as the dollar came under pressure in foreign exchange markets. During June most banks reduced their loan rate to prime business borrowers from 11¾ to 11½ percent. Despite relatively sizable declines in most interest rates, including bond yields, rates on conventional home mortgages in the primary market rose further during the intermeeting period. Thrift and other institutions continued to tighten their lending terms on residential mortgages in apparent response to relatively strong demands for credit and to uncertainty about prospective inflows of savings.

At this meeting, in conjunction with its discussion of the economic situation and outlook, the Committee reviewed its longer-run ranges for growth of the monetary aggregates. The Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act) requires the Board of Governors to transmit to the Congress by February 20 and July 20 of each year written reports concerning the objectives and plans of the Board and the Committee with respect to the ranges of growth or diminution of the monetary and credit aggregates for the calendar year during which the report is transmitted and, in the case of the July report, the objectives and plans with respect to ranges for the following calendar year as well. Accordingly, the Committee reviewed the ranges for the period from the fourth quarter of 1978 to the fourth quarter of 1979 that it had established at its meeting on February 6, 1979, and for the first time considered preliminary ranges for the period from the fourth quarter of 1979 to the fourth quarter of 1980.[1]

At its meeting on February 6 the Committee had specified ranges of 1½ to 4½ percent for M-1, 5 to 8 percent for M-2, and 6 to 9 percent for M-3. The associated range for commercial bank credit was 7½ to 10½ percent. The range for M-1 had been established on the assumption that shifts in funds from demand deposits to savings accounts with automatic transfer facilities and to NOW accounts would dampen growth of measured M-1 by about 3 percentage points.

With respect to the economic situation and outlook, no member of the Committee expressed disagreement with the staff appraisal that real gross national product had declined somewhat in the second quarter and that further declines were likely for the remaining two quarters of the year. The suggestion was made that the recession was most likely to be mild and short-lived. However, it could prove to be more severe than currently expected because the recent increases in prices of energy items and inflation generally were reducing disposable income and eroding the financial position of the household sector.

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[1] The act also requires that the written reports set forth a review and analysis of recent developments affecting economic trends in the nation and the relationship of the plans and objectives for the aggregates to the short-term goals set forth in the most recent *Economic Report of the President* and to any short-term goals approved by the Congress. The Board's second report under the act was transmitted to the Congress on July 17, 1979.

Another reason advanced for thinking that the recession could be more severe was the possibility that the downturn in economic activity would become widespread among industrial countries.

Members continued to express great concern about inflation. It was suggested that the unexpectedly large increases in OPEC oil prices in late June had seriously harmed the government's anti-inflation efforts. Thus, winding down the rate of increase in prices might well take considerably longer than had been thought earlier and would be more costly in terms of its impact on output, employment, and real income. In that connection it was noted that time would be required to implement the new policies with respect to energy that the President was expected to announce within a few days. On the other hand, the public's perception of the urgency of the problem had increased, leading to a growing awareness that in the short run some loss of real income would have to be accepted for the sake of reestablishing growth in real income over the longer term.

In reviewing ranges for the monetary aggregates for the current year and contemplating ranges for 1980, the Committee continued to face unusual uncertainties concerning the forces affecting monetary growth. A staff analysis had suggested that shifts in funds from demand deposits to savings accounts with automatic transfer services and to NOW accounts had retarded the annual rate of growth of M-1 by the assumed amount of about 3 percentage points in the first quarter of 1979 but by only about 1½ percentage points in the second quarter; thus, from the fourth quarter of 1978 to the second quarter of 1979, the dampening effects of ATS and NOW accounts on growth of M-1 averaged about 2¼ percentage points. The outlook for the effects of these accounts on growth of M-1 was clouded, moreover, by a federal court decision handed down in April barring ATS and certain other payments services as of January 1, 1980, and by the possibility of further judicial review and of legislation concerning such services.

The demand for M-1 was unusually weak in the first quarter of 1979, even after allowance for the effects of the growth of ATS and NOW accounts, but money demand appeared to strengthen in the second quarter. Still, at an annual rate of about 2¾ percent from the fourth quarter of 1978 to the second quarter of 1979, growth of M-1 was just below the midpoint of the longer-run range established by the Committee in February, as the high level of interest rates reached in late 1978 and the continued tautness of markets in 1979 prompted the public to economize on non-interest-earning holdings of cash. The high level of market interest rates also induced the public to divert funds from deposits subject to fixed ceiling rates into market instruments, thereby further retarding growth of M-2 and M-3 over the first two quarters of 1979; their annual rates of growth, at 5¼ percent and 6¼ percent respectively, were just above the lower limits of their ranges. As a result of these developments, growth of all three monetary aggregates, which had moderated over the four quarters of 1978 from the pace of the preceding four quarters, slowed appreciably further in the first half of 1979. However, growth of commercial bank credit in the first half of 1979, at a rate of 11½ percent, was slightly above its range and little different from the year before.

In the Committee's discussion, most members favored ranges for both 1979 and 1980 that would represent essentially a continuation of the policy posture adopted in early February. One member advocated a more restrictive policy for the balance of the current year. Some sentiment was expressed for narrowing the ranges for the period from the fourth quarter of 1978 to the fourth quarter of 1979, because passage of half of the year had reduced uncertainty about rates of growth over the whole period.

It was suggested that the ranges for 1980 might well be slightly lower than those for 1979, in recognition of the Committee's longstanding objective to move gradually toward rates of monetary expansion consistent with general price stability. The suggestion also was made to adopt slightly higher ranges for 1980 than for 1979, in view of the decline in activity that had just begun. It was observed, however, that any increase in the ranges for 1980 would not now be timely and that the Committee would reconsider the 1980 ranges next February in the light of the information then available about economic conditions. In any event, it was recognized that the current reexamination of the definitions of the monetary aggregates, which was being undertaken in light of the major institutional changes in the payments system, might in the near future lead to a new and improved set of money stock measures.

At the conclusion of the discussion, the Committee decided to retain the ranges for 1979 that it had established in February. Thus, for the period from the fourth quarter of 1978 to the fourth quarter of 1979, the Committee reaffirmed ranges of 1½ to 4½ percent for M-1, 5 to 8 percent for M-2, and 6 to 9 percent for M-3. The associated range for commercial bank credit remained 7½ to 10½ percent. Having established the range for M-1 in February on the assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year, the Committee also agreed that actual growth in M-1 might vary in relation to its range to the extent of any deviation from that estimate. The Committee anticipated that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth might be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that might be required by legislation or judicial developments affecting interest-bearing transactions accounts.

It was understood that the longer-run ranges, as well as the particular aggregates for which ranges were specified, would be reconsidered at any time that conditions might warrant. It was also understood that short-run factors might cause growth rates from one month to the next to fall outside the ranges anticipated for the year.

The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1978 to the fourth quarter of 1979: M-1, 1½ to 4½ percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. Actual growth in M-1 might vary in relation to its range to the extent that the dampening effect of expansion in ATS and NOW accounts deviates from an estimate of about 3 percentage points. The associated range for bank credit is 7½ to 10½ percent.

> Votes for this action: Messrs. Miller, Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, and Mrs. Teeters. Vote against this action: Mr. Wallich.

Mr. Wallich dissented from this action because, with the Committee's objective of slowing the rate of inflation in mind, he believed that the range adopted for M-1, after allowance for the effects of ATS and NOW accounts, was too high. In his opinion, growth of the money stock, after allowance for the expansion in repurchase agreements and Eurodollars as well as for the effects of ATS and NOW accounts, had been considerably more rapid than indicated by the behavior of M-1.

The Committee agreed that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth of M-1, M-2, and M-3, and of commercial bank credit, might be within the ranges adopted for 1979, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts.

> Votes for this action: Messrs. Miller, Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

In the discussion of policy for the period immediately ahead, members of the Committee in general favored directing open market operations initially toward maintaining the money market conditions currently prevailing, as indicated by a federal funds rate of about 10¼ percent, on the expectation that over the July–August period growth of M-1 and M-2 would be both moderate and consistent with their longer-run ranges. Some sentiment was expressed for a near-term reduction in the federal funds rate because of the downturn in economic activity, but it was agreed that current conditions in foreign exchange markets militated against a prompt reduction.

With respect to operations later in the period before the next regular meeting, most members thought that the objective for the federal funds rate should be moved up or down within its specified range only if growth of M-1 and M-2 appeared to be close to or beyond the upper or lower limits of their ranges. Most members favored specification of an intermeeting range of 9¾ to 10½ percent for the federal funds rate, the same range that had been specified at the three preceding meetings. A range of 10 to 10¾ percent was also suggested, coupled with an instruction to the Manager to move the objective for the funds rate up within that range should the dollar come under severe downward pressure in foreign exchange markets. It was recognized, however, that the Committee could consult during the intermeeting period to consider giving additional instructions to the Desk in response to any new developments, including reactions to the President's forthcoming address on energy policy as well as to the behavior of the foreign exchange markets.

The suggestion was made that, in assessing the implications of the behavior of the aggregates for the Desk's objective for the federal funds rate, the Manager be instructed to give more weight to M-2, rather than approximately equal weight to M-1 and M-2, because of uncertainties about the interpretation of M-1. It was noted, however, that the course of M-2 was subject to considerable uncertainty because the six-month Treasury bill rate was hovering around the 9 percent trigger point that affects the relationship between the maximum rates that commercial banks and savings and loan associations may pay on money market certificates.

At the conclusion of the discussion the Committee decided that ranges of tolerance for the annual rates of growth in M-1 and M-2 over the July–August period should be 2½ to 6½ percent and 6½ to 10½ percent respectively. The Manager was instructed to direct open market operations initially toward maintaining the weekly average federal funds rate at about the current level, represented by a rate of 10¼ percent. Subsequently, if the two-month growth rates of M-1 and M-2 appeared to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 9¾ to 10½ percent. It was also agreed that in assessing the behavior of the aggregates, the Manager should give approximately equal weight to M-1 and M-2.

As is customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real output of goods and services declined somewhat in the second quarter, as slackening in demands was intensified by reduced supplies and sharply higher prices of motor fuels. During the quarter, the dollar value of retail sales declined, and in real terms, sales in June were substantially below those of last December. Growth in nonfarm payroll employment slowed during the quarter to a pace considerably below that in the preceding six months, but the unemployment rate in June, at 5.6 percent, was somewhat lower than earlier in the year. Industrial production recovered in May, after having declined in April in large part because of a work stoppage. Over the first half of this year, broad measures of prices increased at a much faster pace than during 1978, although producer prices of foods declined in the second quarter. The rise in the index of average hourly earnings has slowed in recent months.

Downward pressure on the dollar in foreign exchange markets emerged in mid-June after several months of strength, and since then the trade-weighted value of the dollar against major foreign currencies has declined about 3 percent. The U.S. trade deficit for April and May combined widened somewhat from the first-quarter rate.

M-1 expanded sharply in June, after having increased little in May, and M-2 and M-3 also grew rapidly. Inflows of interest-bearing deposits included in M-2 grew rapidly in June, as net flows into money market certificates at commercial banks expanded further and savings deposits increased for the first time since last September. At nonbank thrift institutions, inflows of deposits picked up from the sharply reduced pace in May. On a quarterly average basis, M-1 grew at an annual rate of about 7½ percent in the second quarter, compared with a decline at a rate of about 2 percent in the first quarter; M-2 and M-3 grew at rates of about 8½ percent and 7¾ percent respectively in the second quarter, compared with rates of about 1¾ percent and 4¾ percent in the first quarter. Market interest rates in general have declined substantially over the past several weeks, but mortgage interest rates have risen further.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, it is the policy of the Federal Open Market Committee to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. The Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent respectively, the same ranges that had been established in February. Having established the range for M-1 in February on the assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year, the Committee also agreed that actual growth in M-1 might vary in relation to its range to the extent of any deviation from that estimate. The associated range for bank credit is 7½ to 10½ percent. The Committee anticipates that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts. These ranges will be reconsidered at any time as conditions warrant.

In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to the program for supporting the foreign exchange value of the dollar and to developing conditions in domestic financial markets. Early in the period before the next regular meeting, System open market operations are to be directed at maintaining the weekly average federal funds rate at about the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 9¾ to 10½ percent. In deciding on the specific objective for the federal funds rate the Manager shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the July–August period of M-1 and M-2 and the following ranges of tolerance: 2½ to 6½ percent for M-1 and 6½ to 10½ percent for M-2. If, with approximately equal weight given to M-1 and M-2, their rates of growth appear to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate is to be raised or lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be above the upper limit or below the lower limit of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager will promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

> Votes for this action: Messrs. Miller, Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

About a week after the meeting, on July 19, projections suggested that over the July–August period M-1 would grow at an annual rate moderately above the upper limit of the range of 2½ to 6½ percent that had been specified by the Committee and that M-2 would grow at a rate about equal to the upper limit of its range of 6½ to 10½ percent; in those circumstances, the Manager began to aim for a weekly average federal funds rate at about the 10½ percent upper limit of its range. On July 27, with the projections suggesting that growth of both M-1 and M-2 over the July–August period would exceed the upper limits of their ranges and with the objective for the federal funds rate at the upper limit of its range, the Committee voted to modify the directive adopted at the meeting on July 11. Specifically, the Committee raised the upper limit of the intermeeting range for the federal funds rate to 10¾ percent and instructed the Manager to aim for a rate within a range of 10½ to 10¾ percent, depending on subsequent behavior of the monetary aggregates, on conditions in foreign exchange markets, and on the current Treasury financing.

On July 27, the Committee modified the domestic policy directive adopted at its meeting on July 11, 1979, by raising the upper limit of the intermeeting range for the federal funds rate to 10¾ percent and by instructing the Manager to aim for a weekly average rate within a range of 10½ to 10¾ percent, depending on subsequent projections of growth of M-1 and M-2 over the July–August period, on conditions in foreign exchange markets, and on the current Treasury financing.

> Votes for this action: Messrs. Miller, Volcker, Black, Coldwell, Partee, Rice, Wallich, Guffey, Roos, and Winn. Vote against this action: Mrs. Teeters. Absent: Messrs. Balles, Kimbrel, and Mayo. (Messrs. Guffey, Roos, and Winn voted as alternates for Messrs. Balles, Kimbrel, and Mayo respectively.)

MEETING HELD ON AUGUST 14, 1979

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services was continuing to decline in the current quarter; according to preliminary estimates of the Commerce Department, real output had fallen at an annual rate of 3.3 percent in the second quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to be rising at an annual rate close to the 10½ percent that had been estimated for the second quarter.

Staff projections suggested some further contraction in economic activity and then an upturn beginning in 1980. Over the year ahead the rise in average prices was projected to moderate a little. The rate of unemployment was expected to increase substantially.

The dollar value of retail sales edged up in July, but in real terms such sales were estimated to be about 5½ percent below their December 1978 peak. A sizable decline in sales of new automobiles contributed substantially to the recent weakness in retail sales. At the end of July, dealers' stocks of unsold cars, particularly of the less fuel-efficient models, were exceptionally large.

Growth in nonfarm payroll employment slowed considerably further in July after having expanded at a much reduced pace during the second quarter. In manufacturing, employment declined for the fourth month in a row and the average workweek remained at the reduced level of May and June. However, the unemployment rate, at 5.7 percent, stayed within the narrow range that has prevailed since the beginning of the year.

The index of industrial production declined 0.3 percent in June, and available data suggested a further small decline in July to a level close to that of December 1978. The weakness in June and July was dominated by reduced output of consumer durable goods, especially motor vehicles.

Manufacturers' new orders for nondefense capital goods rose moderately in June but remained below their March peak. Contract awards for commercial and industrial buildings—measured in terms of floor space—declined for the fourth consecutive month.

Housing starts rose further in June but, at an annual rate of about 1.9 million, were still moderately lower than in 1977 and 1978. Sales of both new and existing single-family homes fell substantially in June.

Producer prices of finished goods and of materials rose sharply further in July, after a much more rapid rate of increase over the first half of 1979 than during 1978. In July the increases continued to be especially pronounced in energy-related items. Prices of consumer finished foods were unchanged, after having declined in the previous three months. However, producer prices of crude foods and animal feeds, which had also declined during the second quarter, rose substantially.

In June consumer prices continued to increase rapidly. The rise in energy prices accelerated further and increases in homeownership costs remained large. The rise in food prices moderated further, however, following especially sharp increases during the early months of the year. Over the first half of 1979, consumer prices rose at an annual rate of about 13¼ percent, compared with 9 percent in 1978.

In July the rise in the index of average hourly earnings of private nonfarm production workers picked up to an annual rate of about 8½ percent, following a marked slowing in the advance during May and June. Over the first seven months of the year the rise was at an annual rate of 7½ percent compared with 8½ percent during 1978. In the nonfarm business sector, the advance in total compensation per manhour moderated in the second quarter from the very rapid pace in the first quarter, which had been affected by increases in social security taxes at the beginning of the year. The rise in unit labor costs was as rapid as in the first quarter, however, as output per manhour declined significantly further.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies declined somewhat further in the second half of July, and central banks made additional net purchases of dollars. The dollar recovered subsequently, but it was still about 3½ percent below its level in early June. The U.S. trade deficit widened between the first and second quarters. A sizable increase in the value of oil and other imports exceeded the rise in nonagricultural exports.

Expansion of total credit outstanding at U.S. commercial banks, which had picked up in June, moderated in July to about the April–May pace. Growth in loans also moderated in July after an acceleration in June. Banks continued to add sizable amounts to their holdings of securities, especially U.S. government obligations. Growth in commercial paper issued by nonfinancial firms exceeded the strong second-quarter pace, owing in part to large sales by foreign issuers.

The monetary aggregates—M-1, M-2, and M-3—continued to expand rapidly in July. Growth in M-1, at an annual rate of about 10 percent, was moderately lower than in June but close to the average pace during the second quarter. Inflows to commercial banks of interest-bearing deposits included in M-2 increased slightly in July. Net inflows of funds to nonbank thrift institutions moderated somewhat, despite a pickup in net issuance of money market certificates by these institutions.

At its meeting on July 11, the Committee had decided on ranges of tolerance for the annual rates of growth in M-1 and M-2 during the July–August period of 2½ to 6½ percent and 6½ to 10½ percent respectively. The Committee had agreed that early in the intermeeting period the Manager of the System Open Market Account should continue to direct operations toward maintaining the weekly average federal funds rate at around 10¼ percent. Subsequently, if the two-month growth rates of M-1 and M-2, given approximately equal weight, appeared to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 9¾ to 10½ percent.

About a week after the meeting, on July 19, projections suggested that over the July–August period growth in M-1 would be above the upper limit of the range specified by the Committee and that growth in M-2 would about equal the upper limit of its range. In those circumstances, the Manager began to aim for a weekly average federal funds rate at about the 10½ percent upper limit of its range. On July 20 the Board of Governors announced an increase in Federal Reserve Bank discount rates from 9½ to 10 percent.

On July 27, with projections suggesting that over the two-month period growth of both M-1 and M-2 would exceed the upper limits of their ranges and with the objective for the federal funds rate at the upper limit of its range, the Committee voted to raise the upper limit of the range for the funds rate to 10¾ percent and instructed the Manager to aim for a rate within a range of 10½ to 10¾ percent.

Over the remainder of the intermeeting period the funds rate averaged just under 10¾ percent.

Short-term market rates in general rose during the intermeeting period. In late July most banks raised their loan rate to prime business borrowers from 11½ to 11¾ percent. In long-term debt markets, however, interest rates changed little during the period, reflecting a relatively light schedule of new corporate and municipal bond offerings and also reactions to further evidence of a weakening economy. In home mortgage markets, yields on new mortgage commitments declined slightly.

In the Committee's discussion of the economic situation and outlook, none of the members expressed disagreement with the staff appraisal that real gross national product was continuing to decline in the current quarter. However, members expressed considerable uncertainty about the duration and extent of the decline in activity.

On the one hand, it was suggested that a substantial decline in consumer spending—generated by high consumer debt and low consumer confidence as well as by energy problems and inflation—could have a major effect on business spending for plant and equipment. Concurrent weakness in those two sectors could quickly produce an unwanted accumulation of business inventories, a cumulative curtailment in output, and a sharp rise in unemployment.

On the other hand, it was observed, certain elements in the current situation suggested that the curtailment in output could be limited to modest proportions. For example, prices of common stocks on the average had been rising, in contrast with the more usual decline associated with the onset of recession, and various measures of risk premiums in markets for debt instruments had remained low by historical standards. Moreover, growth of the monetary aggregates had strengthened in recent months after a period of weakness, whereas generally in recession growth had weakened and then remained weak.

Members continued to express great concern about inflation. It was observed that for a long period elements in the economic situation had seemed to justify expectations of a reduction in the rise in prices. Such expectations had been disappointed. Moreover, little reduction could be expected in the short run because recent increases in energy prices had not yet fully worked through the price structure. It was noted that the decline in the rate of inflation projected for the quarters immediately ahead was small, and much smaller than that associated with the previous recession. Thus, inflation might still be at a high rate when economic activity turned up again. Inflationary expectations appeared to have worsened in the sense that, more than ever before, consumers and businessmen seemed to take the inflationary environment into account in making spending and investing decisions.

In considering policy for the period immediately ahead, Committee members focused on the problems posed by emerging recession and its potential for substantial increases in unemployment, concurrent with strong monetary growth, high actual and expected rates of inflation, and an exposed position of the dollar in foreign exchange markets pending anticipated improvement in the U.S. foreign trade and current accounts. Any policy course in these circumstances necessarily involved unusual risks: prompt pursuit of a policy aimed at moderating the effects of the curtailment in output could be perceived as exacerbating inflation and thus could have perverse effects on economic activity and employment; a policy directed toward moderating inflation and lending support to the dollar in the foreign exchange markets could risk intensifying the recession.

There was little disagreement with the proposition that for the near term modest measures should be taken to direct policy toward slowing growth of the monetary aggregates. Control of monetary growth was regarded as essential to restore expectations of a decline in the rate of inflation over a period of time. It was suggested that public confidence in the determination to direct monetary policy toward reducing inflation would have a constructive influence on the course of long-term interest rates and on sentiment in foreign exchange markets, and it might also be an element in wage and price determinations. Should developments over the months ahead suggest the desirability of policy measures aimed at reversing the decline in output, moreover, such measures would be more effective in an environment of confidence in the government's adherence to the fundamental objective of reducing inflation.

In support of modest measures directed toward restraint, it was suggested that monetary policy recently had not been so restrictive as it might have appeared. Monetary growth since the beginning of the year had been considerably greater than that indicated by M-1, owing to rapid expansion in close substitutes for demand deposits and currency. In addition, the increase in interest rates had been less than that in expected rates of inflation.

On the other hand, it was noted that interest rates were close to historic highs. Some doubt was expressed, moreover, that further restraint could have a significant effect on inflation, particularly in view of the role of energy in the rapid rate of increase in prices recently. In the face of clear evidence of weakening in economic activity, it was observed, the need to balance the objective of containing the recession with the goal of moderating inflation called for a steady policy for the time being.

In considering policy specifications for the period immediately ahead, the Committee took note of a staff analysis suggesting that the current growth rate of nominal GNP and other influences, including possibly a temporary accumulation of precautionary balances by the public in response to unusual uncertainties, were tending to support the demand for money. On the assumption of continuance of prevailing money market conditions, therefore, growth of both M-1 and M-2 over the August–September period most likely would be high relative to the Committee's longer-run ranges, although growth could be expected to slow substantially from the rapid rates of recent months.

At the conclusion of its discussion of policy, the Committee decided to instruct the Manager for Domestic Operations to direct open market operations initially toward an increase in the weekly average federal funds rate to about 11 percent. Subsequently, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 10¾ to 11¼ percent, if M-1 and M-2 appeared to be growing over the August–September period at rates close to or beyond the upper or lower limits of the ranges specified for those monetary aggregates. The members decided that the two-month ranges of tolerance for the annual rates of growth in M-1 and M-2 should be 4 to 8 percent and 7 to 11 percent respectively. They also agreed that in assessing the behavior of the aggregates, the Manager should give approximately equal weight to M-1 and M-2.

As is customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real output of goods and services is continuing to decline in the current quarter, while prices on the average are continuing to rise rapidly. In July the dollar value of retail sales edged up; in real terms, sales were still substantially below those of last December. Growth in nonfarm payroll employment slowed considerably further, but the unemployment rate, at 5.7 percent, remained within the narrow range prevailing since the beginning of the year. Industrial production declined in June, and it apparently slackened further in July to about the level of last December. So far this year, broad measures of prices have increased at a much faster pace than during 1978, although producer prices of foods have declined since March. The rise in the index of average hourly earnings, which had slowed in May and June, picked up in July.

The trade-weighted value of the dollar against major foreign currencies declined somewhat further in the second half of July, and although it subsequently recovered, it remained below its level of early June. The U.S. trade deficit in the second quarter was larger than in the previous quarter, reflecting largely the significant rise in the price and value of oil imports.

Growth of M-1, M-2, and M-3 remained rapid in July. Inflows of interest-bearing deposits included in M-2 were slightly stronger than in June. At nonbank thrift institutions, inflows of deposits declined somewhat. Short-term market interest rates have risen over recent weeks, while long-term rates have changed little on balance. An increase in Federal Reserve discount rates from 9½ to 10 percent was announced on July 20.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on July 11, 1979, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent respectively, the same ranges that had been established in February. Having established the range for M-1 in February on the assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year, the Committee also agreed that actual growth in M-1 might vary in relation to its range to the extent of any deviation from that estimate. The associated range for bank credit is 7½ to 10½ percent. The Committee anticipates that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts. These ranges will be reconsidered at any time as conditions warrant.

In the short run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to developing conditions in foreign exchange and domestic financial markets. Early in the period before the next regular meeting, System open market operations are to be directed at attaining a weekly average federal funds rate slightly above the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 10¾ to 11¼ percent. In deciding on the specific objective for the federal funds rate the Manager for Domestic Operations shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the August–September period of M-1 and M-2 and the following ranges of tolerance: 4 to 8 percent for M-1 and 7 to 11 percent for M-2. If rates of growth of M-1 and M-2, given approximately equal weight, appear to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate is to be raised or lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be beyond the upper or lower limits of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager shall promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

> Votes for this action: Messrs. Volcker, Balles, Coldwell, Kimbrel, Mayo, Partee, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: Messrs. Black and Rice. (Mr. Timlen voted as an alternate member.)

Mr. Black dissented from this action because, in view of the rapid monetary growth in recent months, he preferred to specify lower ranges for growth of M-1 and M-2 over the August–September period in order to increase the probability of holding growth within the Committee's longer-run ranges. While he agreed that open market operations should be directed toward attaining a slight increase in the federal funds rate initially in the coming intermeeting period, he believed that the directive adopted by the Committee allowed for too rapid monetary growth before a further increase in the funds rate would be triggered.

Mr. Rice dissented from this action because he believed that an additional firming in money market conditions at this time, to restrict growth of money and credit, in the face of the evidence of weakening in economic activity would risk deepening the recession. In his view, the effort to balance the goal of reducing the rate of inflation with the objective of minimizing the impact of the recession called for a policy directed toward the maintenance of prevailing money market conditions unless growth of the monetary aggregates over the August–September period appeared to be substantially faster or slower than the rates currently expected.

Subsequent to the meeting, in late August, incoming data indicated that M-1 and M-2 were growing at rapid rates in August. On August 30, projections for the August–September period suggested that growth of M-1 would be at an annual rate well above the upper limit of the range that had been specified by the Committee and that growth of M-2 would be at about the upper limit of its range. Over the preceding week, the Manager for Domestic Operations had been aiming for a weekly average federal funds rate approaching the 11¼ percent upper limit of its specified range, and in the statement week ending August 29, the rate averaged 11.16 percent. In these circumstances, Chairman Volcker recommended that the upper limit of the range for the funds rate be raised to 11½ percent, but with the understanding that not all of the additional leeway would be used immediately; use of the leeway would depend on subsequent behavior of the monetary aggregates and on developments in foreign exchange markets. The Committee voted to amend the domestic policy directive in accordance with the Chairman's recommendation.

On August 30, 1979, the Committee modified the domestic policy directive adopted at its meeting on August 14 by raising the upper limit of the intermeeting range for the federal funds rate to 11½ percent and by instructing the Manager for Domestic Operations not to raise the objective for the weekly average funds rate to the new upper limit immediately but to be guided by the subsequent behavior of the monetary aggregates and by developments in foreign exchange markets.

> Votes for this action: Messrs. Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Vote against this action: Mr. Rice. (Mr. Timlen voted as an alternate member.)

2. Authorization for Foreign Currency Operations

The Committee approved an increase from $360 million to $700 million in the System's swap arrangement with the Bank of Mexico and the corresponding amendment to paragraph 2 of the authorization for foreign currency operations, effective August 17, 1979. With this change paragraph 2 read as follows:

The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	700
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

> Votes for this action: Messrs. Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: None. (Mr. Timlen voted as an alternate member.)

This action was taken in light of the increase in recent years in the scale of economic and financial transactions between the United States and Mexico.

3. Authorization for Domestic Open Market Operations

At this meeting the Committee amended paragraph 2 of the authorization for domestic open market operations, effective immediately, to take account of amendments to the Federal Reserve Act enacted in June 1979. The amendments extended for two years the authority for lending to the Treasury through direct purchases of securities, under more restrictive conditions than formerly, and for the first time provided for an alternative means of assisting the Treasury in meeting short-term cash needs in more routine circumstances.

Specifically, the legislation provided authority for the System to purchase securities directly from the Treasury in unusual and exigent circumstances, for renewable periods not to exceed thirty days, when authorized by the Board of Governors pursuant to an affirmative vote of not less than five members. The legislation also provided authority for the System, subject to the approval and rules and regulations of the Federal Open Market Committee, to lend securities to the Treasury for sale in the open market. The Treasury would be required to repurchase the securities and return them to the System not later than six months after the date of sale. The total amount of securities loaned to and purchased directly from the Treasury at any one time may not exceed $5 billion.

As amended, paragraph 2 read as follows:

> The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (or, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank) (a) to lend to the Treasury such amounts of securities held in the System Open Market Account as may be necessary from time to time for the temporary accommodation of the Treasury, under such conditions as the Committee may specify; and (b) to purchase directly from the Treasury for renewable periods not to exceed thirty days, when authorized by the Board of Governors of the Federal Reserve System pursuant to an affirmative vote of not less than five members, for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury, provided that the rate charged on such certificates shall be a rate of 1/4 of 1 percent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases and provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $2 billion.

Votes for this action: Messrs. Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: None. (Mr. Timlen voted as an alternate member.)

MEETING HELD ON SEPTEMBER 18, 1979

1. Domestic Policy Directive

The information reviewed at this meeting suggested that economic activity in the current quarter was near its level in the second quarter when, according to revised estimates of the Commerce Department, real output of goods and services had declined at an annual rate of 2.4 percent. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to be rising at a pace close to the annual rate of 10 percent estimated for the second quarter.

Staff projections suggested some further contraction in economic activity and then an upturn beginning in 1980. Over the year ahead, the rise in average prices was projected to moderate a little from the rapid rate of recent quarters, and the rate of unemployment was expected to increase substantially.

The dollar value of retail sales expanded moderately in July and August, but in real terms such sales changed little and were estimated to be about 4 percent below their December 1978 peak. Sales of new automobiles rebounded in July and August from relatively depressed levels in the previous month, and by the end of August dealers' inventories of unsold cars had been reduced from an unusually high level.

The index of industrial production fell 1.1 percent in August after changing little on balance from the peak reached in March. Output of consumer durable goods, especially auto assemblies, declined sharply further in August, and production of business equipment and materials, including automotive parts, also fell.

In August nonfarm payroll employment was virtually unchanged following several months of slowing growth. In manufacturing, employment declined for the fifth consecutive month and the average workweek fell somewhat from an already reduced level. The unemployment rate rose from 5.7 to 6.0 percent after having fluctuated in a range of 5.6 to 5.8 percent since the beginning of the year.

Private housing starts declined somewhat in July to an annual rate of 1.8 million units, close to the rate for the second quarter but well below the average for 1978. Sales of new and existing single-family homes increased in July but were still about 3 percent below their record pace in 1978.

The latest survey of business plans taken by the Department of Commerce in late July and August suggested that spending for plant and equipment would expand 13.2 percent in 1979 as a whole; the survey taken three months earlier had suggested an increase of 12.7 percent. The new survey implied substantially less growth in the second half of the year than in the first half. Manufacturers' new orders for nondefense capital goods declined considerably in July to a level about 15 percent below their March peak.

Producer prices of finished goods continued to rise rapidly in August. The advance was led by a further sharp increase in prices of energy items and by a substantial rise in prices of consumer foods, which had declined considerably over the previous four months. Prices of intermediate goods also continued to move up rapidly in August, but prices of crude goods changed little after having advanced substantially in most earlier months of the year.

In July consumer prices increased considerably further. As in other recent months a large portion of the rise was accounted for by sharp advances in energy prices and homeownership costs. Food prices were little changed for the second straight month. Over the first seven months of the year consumer prices rose at an annual rate of about 13 percent.

In August the rise in the index of average hourly earnings of private nonfarm production workers moderated appreciably, to an annual rate of about 2¾ percent. Over the first eight months of the year the increase was at an annual rate of just over 7 percent, compared with a rise of 8½ percent during 1978. However, the increase in total hourly compensation in the nonfarm business sector was about as rapid in the first half of 1979 as it had been during 1978 and, with productivity declining, the rise in unit labor costs accelerated substantially.

In foreign exchange markets the dollar came under downward pressure in the last few days of August and the first few days of September, but its trade-weighted value against major foreign currencies had changed little on balance since the Committee's meeting in mid-August. The U.S. trade deficit narrowed sharply in July from its average level earlier in the year. Exports, especially of agricultural products, continued to rise strongly in July, while non-oil imports fell substantially.

Total credit outstanding at U.S. commercial banks grew more slowly in August than in most earlier months of the year. Banks' holdings of Treasury obligations declined and growth in their total loans moderated. However, business loans continued to expand rapidly in August and commercial paper issued by nonfinancial firms again increased sharply.

The monetary aggregates—M-1, M-2, and M-3—continued to expand at relatively rapid rates in August and early September, although somewhat less rapidly than in June and July. Growth in demand deposits slowed considerably in August but the slowdown was partly offset by an acceleration in growth of currency. Expansion in time and savings deposits included in M-2 moderated slightly in August and net inflows of funds to nonbank thrift institutions also slowed somewhat. Growth in money market mutual funds and other short-term nondeposit investments had remained rapid in recent weeks.

At its meeting on August 14, the Committee had decided on ranges of tolerance for the annual rates of growth in M-1 and M-2 during the August–September period of 4 to 8 percent and 7 to 11 percent respectively. The Committee had agreed that in the coming intermeeting period the Manager for Domestic Operations of the System Open Market Account should direct open market operations initially toward an increase in the weekly average federal funds rate to a level of about 11 percent. Subsequently, if the two-month growth rates of M-1 and M-2, given approximately equal weight, appeared to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 10¾ to 11¼ percent.

Soon after the meeting, incoming data indicated that M-1 and M-2 were growing at rapid rates in August. On August 30, projections for the August–September period suggested that growth of M-1 would be well above the upper limit of the range that had been specified by the Committee and that growth of M-2 would be at about the upper limit of its range. Over the preceding week, the Manager for Domestic Operations had been aiming for a weekly average federal funds rate approaching the 11¼ percent upper limit of the intermeeting range, and in the statement week ending August 29, the rate averaged

11.16 percent. In these circumstances, the Committee voted on August 30 to amend the domestic policy directive by raising the upper limit of the range for the funds rate to 11½ percent, but with the understanding that not all of the additional leeway would be used immediately; use of the leeway would depend on subsequent behavior of the monetary aggregates and on developments in foreign exchange markets. In the week preceding today's meeting, the funds rate averaged about 11⅜ percent.

Short-term interest rates rose substantially during the intermeeting period, in response to strong business demands for credit as well as to the System's actions firming money market conditions and to expectations of further monetary restraint. Bond yields also increased somewhat. During the period, banks raised their loan rate to prime business borrowers in steps from 11¾ percent to a new record of 13 percent. On August 16, the Board of Governors announced an increase in Federal Reserve Bank discount rates from 10 to 10½ percent.

In home mortgage markets, yields on new mortgage commitments rose to new highs in early September and, according to field reports, nonrate lending terms were tightened further by numerous lenders. However, the volume of mortgage lending appeared to be well maintained.

In the Committee's discussion of the economic situation and outlook, none of the members expressed disagreement with the staff appraisal of some further contraction in real gross national product after the current quarter's interruption of the decline. However, members continued to express uncertainty about the duration and extent of the contraction in activity.

In one view, recent domestic developments were consistent with no more than a mild contraction. While several months had elapsed since the first signs of economic weakness and the automobile industry in particular was in recession, activity and demand for labor in certain industries and regions of the country remained strong. The unemployment rate had increased little from a level that, under prevailing market conditions, some observers associated with full employment; retail sales in real terms had leveled out in the summer, after a decline over the first half of the year; and business inventories appeared to be undergoing a moderate correction. Moreover, a new labor contract in the automobile industry had been negotiated without a work stoppage, eliminating one potential disturbance. Abroad, growth of industrial activity appeared sufficiently robust to contribute to improvement in this country's net exports and thereby to lend support to domestic activity.

In an alternative view, the contraction in activity could become more severe. Recent indicators of demands suggested mounting weakness, and business inventories—up sharply in July, according to the latest available data—were unlikely to be worked down easily. Industrial activity abroad—as in the United States, adversely affected by the petroleum situation, by inflation, and by instability in foreign exchange markets—might not contribute so much to improvement in U.S. net exports.

A major problem in the current situation, it was observed, was the tendency of inflation to raise effective income tax rates and thereby to reduce real disposable income and consumption expenditures. The sharp increase in oil prices, moreover, had similar effects.

Members continued to express great concern about the rapid rise in prices. It was observed that inflation was more persistent now than it had been in earlier periods of some weakening in demands and that there was still a tendency to underestimate its strength. Furthermore, the current and foreseeable rate of inflation could itself lead to additional shocks to the economy.

At its meeting on July 11, 1979, the Committee reaffirmed the ranges for monetary growth in 1979 that it had established in February. Thus, the Committee agreed that from the fourth quarter of 1978 to the fourth quarter of 1979 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1, 1½ to 4½ percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. The associated range for commercial bank credit was 7½ to 10½ percent. Having established the range for M-1 in February on the assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year, the Committee also agreed that actual growth of M-1 might vary in relation to its range to the extent of any deviation from that estimate. It now appeared that expansion of such accounts would reduce measured growth of M-1 over the year by about 1½ percentage points.

In contemplating policy for the period immediately ahead, Committee members took note of a staff analysis suggesting that growth of

M-1 was likely to taper off during the September–October period in response to the lagged effects of the substantial increase in interest rates during the summer and the prospective weakening of expansion in nominal GNP. However, growth over the two months would still be relatively high. Growth of M-2 was also expected to moderate, mainly as a result of the behavior of M-1 but also because of a reduction in growth of savings and small time deposits at commercial banks in response to the increased level of interest rates.

In the Committee's discussion, most members favored a policy of directing open market operations toward a slight additional firming in money market conditions early in the period before the next regular meeting and of having subsequent operations guided by incoming evidence on the behavior of the monetary aggregates. Because of the rapid monetary expansion of recent months, these members in general favored specification of ranges for growth of M-1 and M-2 over the September–October period that were indicative of less tolerance for relatively high than for relatively low growth. Sentiment was also expressed for directing open market operations toward maintaining the money market conditions currently prevailing, unless incoming evidence suggested that growth of the monetary aggregates over the September–October period would deviate significantly from the rates currently expected. No member advocated an easing in money market conditions in the period immediately ahead.

Members who favored policy measures directed toward some additional firming in money market conditions stressed the importance of achieving a significant reduction in the pace of monetary expansion over the months ahead. Such a reduction was necessary if growth over the year ending in the fourth quarter of 1979 was to be held well within the longer-run ranges that had been reaffirmed by the Committee in July. Additional measures to restrain monetary growth, moreover, would tend to lower expected rates of inflation and, consequently, would have a constructive influence on a range of decisions affecting prices and wages as well as the value of the dollar in foreign exchange markets.

It was suggested, in addition, that monetary policy had not been as restrictive as it might have appeared. Despite the level of interest rates, credit demands and credit expansion remained strong. Interest rates after allowance for expected rates of inflation were not high. Furthermore, monetary growth this year had been greater than indicated by M-1 alone, owing to rapid expansion in close substitutes for demand deposits and currency.

In support of a policy directed toward maintenance for the time being of prevailing money market conditions, members emphasized the substantial rise in interest rates over the past two months and the tendency of changes in rates to affect monetary growth and economic activity only after a considerable lag. In this connection, it was observed that growth of demand deposits had slowed markedly in July and August, while expansion of M-1 had been supported by an unexplained pickup in growth of currency in circulation. Growth of the monetary aggregates was likely to taper off in coming months, and additional firming in money market conditions might slow growth to an unwanted degree. In the current circumstances, the Committee should avoid policy actions that might intensify the developing weakness in economic activity.

At the conclusion of its discussion of policy, the Committee decided to instruct the Manager for Domestic Operations to direct open market operations initially toward a slight increase in the weekly average federal funds rate to about 11½ percent. Subsequently, the objective for the funds rate was to be raised or lowered in an orderly fashion within a range of 11¼ to 11¾ percent if the monetary aggregates appeared to be growing over the September–October period at annual rates close to or beyond the upper or lower limits of the following ranges: M-1, 3 to 8 percent; and M-2, 6½ to 10½ percent. They also agreed that in assessing the behavior of the aggregates, the Manager should give approximately equal weight to M-1 and M-2.

As is customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that in the third quarter real output of goods and services remained near the reduced level of the preceding quarter and that prices on the average continued to rise rapidly. In August, as in July, the dollar value of retail sales expanded moderately, but sales in real terms changed little and were substantially below those of last December. Industrial production dropped from the May–July level, largely because of sharp curtailments in output of motor vehicles and parts. Nonfarm payroll employment was unchanged; the

unemployment rate rose from 5.7 percent to 6.0 percent, thus moving above the narrow range in which it had fluctuated since the beginning of the year. Producer prices of finished goods continued to rise rapidly in August, led by further large increases in energy items and a substantial advance in consumer foods following a significant decline over the preceding four months. The rise in the index of average hourly earnings over the first eight months of this year was moderately below the pace during 1978, but the increase in total hourly compensation in the nonfarm business sector has been about as rapid this year as last.

The dollar came under downward pressure in foreign exchange markets in the last days of August and the early days of September, but its trade-weighted value against major foreign currencies has changed little on balance since mid-August. The U.S. trade deficit in July was sharply reduced from the average in the first half of the year.

Growth of M-1, M-2, and M-3 was relatively rapid in August and early September, although not so rapid as in June and July. Market interest rates have risen appreciably over recent weeks. An increase in Federal Reserve discount rates from 10 to 10½ percent was announced on August 16.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on July 11, 1979, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent respectively, the same ranges that had been established in February. Having established the range for M-1 in February on the assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year, the Committee also agreed that actual growth in M-1 might vary in relation to its range to the extent of any deviation from that estimate. The associated range for bank credit is 7½ to 10½ percent. The Committee anticipates that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts. These ranges will be reconsidered at any time as conditions warrant.

In the short-run, the Committee seeks to achieve bank reserve and money market conditions that are broadly consistent with the longer-run ranges for monetary aggregates cited above, while giving due regard to developing conditions in foreign exchange and domestic financial markets. Early in the period before the next regular meeting, System open market operations are to be directed at attaining a weekly average federal funds rate slightly above the current level. Subsequently, operations shall be directed at maintaining the weekly average federal funds rate within the range of 11¼ to 11¾ percent. In deciding on the specific objective for the federal funds rate the Manager for Domestic Operations shall be guided mainly by the relationship between the latest estimates of annual rates of growth in the September–October period of M-1 and M-2 and the following ranges of tolerance: 3 to 8 percent for M-1 and 6½ to 10½ percent for M-2. If rates of growth of M-1 and M-2, given approximately equal weight, appear to be close to or beyond the upper or lower limits of the indicated ranges, the objective for the funds rate is to be raised or lowered in an orderly fashion within its range.

If the rates of growth in the aggregates appear to be beyond the upper or lower limits of the indicated ranges at a time when the objective for the funds rate has already been moved to the corresponding limit of its range, the Manager shall promptly notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

> Votes for this action: Messrs. Volcker, Kimbrel, Mayo, Partee, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: Messrs. Balles, Black, Coldwell, and Rice. (Mr. Timlen voted as an alternate member.)

Messrs. Balles, Black, and Coldwell agreed with the majority that open market operations should be directed toward attaining a slight increase in the federal funds rate initially in the coming intermeeting period, but they dissented because they believed that, given the excessive monetary growth in recent months relative to the Committee's longer-run ranges, the directive adopted by the Committee would allow for too rapid monetary growth before an additional increase in the objective for the funds rate would be triggered. To enhance the prospects for achieving the Committee's objective of restraining monetary growth they preferred, moreover, to provide leeway for a rise in the funds rate to an upper limit of 12 percent.

Mr. Rice dissented from this action because he believed that an additional firming in money market conditions would intensify the developing weakness in economic activity and was unlikely to affect the rate of inflation favorably within six to nine months. In his judgment, monetary growth most likely would slow in the months immediately ahead even if current money market conditions were maintained, and growth of the monetary aggregates over the year ending in the fourth quarter . 1979 probably would fall within the Committee's longer-run ranges.

2. Authorization for Domestic Open Market Operations

The Committee took note of paragraph 3 of the authorization for domestic open market operations, which authorizes the Reserve Banks to engage in the lending of U.S. government securities held in the System Open Market Account under such instructions as the Committee might specify from time to time. That paragraph had been added to the authorization on October 7, 1969, on the basis of a judgment by the Committee that such lending of securities was reasonably necessary to the effective conduct of open market operations and to the implementation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager for Domestic Operations that the lending activity in question remained reasonably necessary and that, accordingly, the authorization should remain in effect subject to review in six months.

> Votes for this action: Messrs. Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: None. (Mr. Timlen voted as an alternate member.)

MEETING HELD ON OCTOBER 6, 1979

Domestic Policy Directive

This meeting of the Committee was called by the Chairman to consider actions that might be taken, in conjunction with actions being contemplated by the Board of Governors, to improve control over the expansion of money and bank credit in the light of developing speculative excesses in financial and commodity markets and additional evidence of strong inflationary forces in the economy. Special attention was given to the conduct of open market operations in order to contain growth in the monetary aggregates within the ranges previously adopted by the Committee for the year ending in the fourth quarter of 1979.

The information available at the time of the meeting suggested somewhat stronger economic activity in the third quarter than had been indicated at the time of the Committee's meeting on September 18, and real output of goods and services was estimated to have recovered a significant part of the second-quarter decline. According to staff projections, however, a decline in activity in the fourth quarter still appeared probable. Prices on the average were continuing to rise somewhat more rapidly than anticipated earlier, in part because of additional large increases in energy items and renewed upward pressures on foods. Moreover, developments in spot and futures markets for a number of commodities were indicative of an intensification of speculative activity and of the possibility of a further surge in prices.

In foreign exchange markets the weighted-average value of the dollar against major foreign currencies had declined substantially since the Committee's meeting in mid-September, and monetary authorities had purchased, net, a large amount of dollars. Over the last few days dollar exchange rates had strengthened somewhat and gold prices had fallen considerably from record highs, apparently in anticipation of official actions to support the dollar. However, the atmosphere in the exchange markets remained sensitive and unsettled.

In accordance with the Committee's decision at its meeting on September 18, open market operations initially were directed toward a slight increase in the federal funds rate to about 11½ percent. On September 18, moreover, the Board of Governors announced an increase in Federal Reserve Bank discount rates from 10½ to 11 percent. Subsequently, open market operations were aimed at maintaining the funds rate at about 11½ percent, although the rate generally was somewhat higher during the week preceding this meeting. Interest rates had remained under considerable upward pressure since mid-September, and most yields had risen to new highs for the year.

The monetary aggregates—M-1 and M-2—continued to expand at rapid rates in September, and growth in bank credit appeared to have accelerated appreciably from its pace in the prior two months. Banks were reported to have financed a substantial portion of their loan growth through sizable increases in the outstanding volume of large-denomination certificates of deposit and through continued large borrowings in the Eurodollar market.

At its meeting on July 11, 1979, the Committee reaffirmed the ranges for monetary growth in 1979 that it had established in February. Thus the Committee agreed that from the fourth quarter of 1978 to the fourth quarter of 1979, average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1, 1½ to 4½ percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. The associated range for commercial bank credit was 7½ to 10½ percent. Having established the range for M-1 in February on the assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year, the Committee also agreed that actual growth of M-1 might vary in relation to its range to the extent of any deviation from that estimate. It now appeared that expansion of such accounts would reduce measured growth of M-1 over the year by about 1½ percentage points. After allowance for the deviation from the earlier estimate, the equivalent range for M-1 was 3 to 6 percent.

Over the first three quarters of the year, growth in M-1, M-2, and M-3 was within the ranges for 1979 set by the Committee. However, growth in all three monetary aggregates became increasingly rapid after the first quarter. Thus M-1 grew at annual rates of about 7½ and 9½ percent in the second and third quarters respectively, after a decline at a rate of about 2 percent in the first quarter. Growth in M-2 and M-3 accelerated to annual rates of about 12 percent and 10¼ percent respectively in the third quarter. For bank credit, growth exceeded its 1979 range in each of the first three quarters. In order that growth of the monetary aggregates fall within the Committee's ranges for the whole of 1979, expansion during the final quarter of the year would have to slow substantially from the rapid rates of recent months.

In the Committee's discussion of policy for the period immediately ahead, the members agreed that the current situation called for additional measures to restrain growth of the monetary aggregates over the months ahead. The members felt that growth of the aggregates at rates within the ranges previously established for 1979 remained a reasonable and feasible objective in the light of the available information and the business outlook. Given that objective, most members strongly supported a shift in the conduct of open market operations to an approach placing emphasis on supplying the volume of bank reserves estimated to be consistent with the desired rates of growth in monetary aggregates, while permitting much greater fluctuations in the federal funds rate than heretofore. A few members, while urging strong action to restrain monetary growth, expressed some preference for continuing to direct daily open market operations toward maintenance of levels of the federal funds rate and other short-term interest rates that appeared to be consistent with the Committee's objectives for growth in the monetary aggregates. The advantages and disadvantages of the different approaches were discussed.

The principal reason advanced for shifting to an operating procedure aimed at controlling the supply of bank reserves more directly was that it would provide greater assurance that the Committee's objectives for monetary growth could be achieved. In the present environment of rapid inflation, estimates of the relationship among interest rates, monetary growth, and economic activity had become less reliable than before, and monetary growth since the first quarter of 1979 had exceeded the rates expected despite substantial increases in short-term interest rates. Committee members recognized that for a number of reasons the relationship between growth of various reserve measures and growth of the monetary aggregates was not precise; thus the shift in emphasis to controlling reserves improved prospects for achievement of the Committee's objectives for monetary growth over the next few months but did not assure it.

Committee members suggested that the shift in operating techniques, along with the other actions being contemplated by the Board of Governors, would tend to increase confidence at home and abroad in the System's determination to achieve its objectives for monetary growth and to avoid further deterioration in the inflationary outlook. Partly because it would increase uncertainty about the near-term course of interest rates, the new operating technique should induce banks to exercise greater caution in extending credit and might dampen speculative behavior by increasing its risks and costs. Altogether, the System's action would tend to moderate inflationary expectations, thereby exerting a constructive influence over time on decisions affecting wages and prices in domestic markets and on the value of the dollar in foreign exchange markets.

The observation was made that the new emphasis in open market operations might be accompanied by larger increases in interest rates in the immediate future than would otherwise occur. On the other hand, the emphasis on reserves also could be expected to produce a shift toward easier conditions in money markets more promptly whenever the demand for money and credit abated significantly in response to a weakening in economic activity. The point was made that an easing in money market conditions under circumstances in which growth of monetary aggregates was restrained, economic activity was weakening, and the rise in prices was moderating should not adversely affect inflationary expectations and the value of the dollar in foreign exchange markets.

At the conclusion of the discussion and after full consideration of the advantages and disadvantages of alternative courses of action, the Committee agreed that in the conduct of open market operations over the remainder of 1979 the Manager for Domestic Operations should place primary emphasis on restraining expansion of bank reserves in pursuit of the Committee's objective of decelerating growth of M-1, M-2, and M-3 to rates that would hold growth of these monetary aggregates over the year from the fourth quarter of 1978 to the fourth quarter of 1979 within the Committee's ranges for that period. Specifically, the Committee instructed the Manager to restrain expansion of bank reserves to a pace consistent with growth from September to December at an annual rate on the order of 4½ percent in M-1 and about 7½ percent in M-2 and M-3, provided that in the period before the next regular meeting the federal funds rate remained generally within a range of 11½ to 15½ percent. Because such rates of expansion would result in growth of the monetary aggregates in the upper part of their ranges for the year, the Committee also agreed that over the three-month period somewhat slower growth would be acceptable.

The Committee anticipated that the shift to an operating approach that placed primary emphasis on the volume of reserves would result in both a prompt increase and greater fluctuations in the federal funds rate. It was recognized that on particular days, or for several days, the federal funds rate might rise above or fall below the general limits established, and those limits were interpreted to apply to weekly averages. The Committee also agreed that it would consider whether supplementary instructions were needed if it appeared that operations to achieve the necessary restraint in expansion of reserves would tend to maintain the federal funds rate within 1 percentage point of the upper limit of its range of 11½ to 15½ percent. It was understood, moreover, that the Committee's decisions with respect to open market operations in the period immediately ahead had implications for Federal Reserve Bank discount rates.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on July 11, 1979, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent respectively, the same ranges that had been established in February. The range for M-1 had been established on the basis of an assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year. It now appears that expansion of such accounts will dampen growth by about 1½ percentage points over the year; thus, the equivalent range for M-1 is now 3 to 6 percent. The associated range for bank credit is 7½ to 10½ percent. The Committee anticipates that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation

or judicial developments affecting interest-bearing transactions accounts. These ranges will be reconsidered at any time as conditions warrant.

In the short run, the Committee seeks to restrain expansion of reserve aggregates to a pace consistent with deceleration in growth of M-1, M-2, and M-3 in the fourth quarter of 1979 to rates that would hold growth of these monetary aggregates over the whole period from the fourth quarter of 1978 to the fourth quarter of 1979 within the Committee's longer-run ranges, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 11½ to 15½ percent. The Committee will consider the need for supplementary instructions if it appears that operations to restrain expansion of reserve aggregates would maintain the federal funds rate near the upper limit of its range.

> Votes for this action: Messrs. Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: None. (Mr. Timlen voted as an alternate member.)

On October 6, after the meeting of the Committee, the Board of Governors unanimously approved complementary actions also directed toward assuring better control over the expansion of money and bank credit and toward curbing speculative excesses in financial and commodity markets. Specifically, the Board approved an increase in Federal Reserve Bank discount rates from 11 percent to 12 percent and established a marginal reserve requirement of 8 percent on increases in the total of managed liabilities of member banks, Edge corporations, and U.S. agencies and branches of foreign banks. (Managed liabilities include large-denomination time deposits with maturities of less than one year, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, and borrowings of federal funds from institutions other than members of the Federal Reserve System.)

Subsequently, on October 22, 1979, the Committee held a telephone conference to review the situation and to consider whether supplementary instructions to the Manager were needed. Since October 6, expansion of total reserves had exceeded the pace consistent with the Committee's objective for growth of the monetary aggregates during the fourth quarter. At the same time, the federal funds rate had begun fluctuating close to the upper limit of the 11½ to 15½ percent range established by the Committee. It was recognized that the desired restraint in the expansion of total reserves might involve continued pressure on money market conditions, including higher levels of member bank borrowings from the Federal Reserve than had been anticipated, as banks made orderly adjustments that would in time slow monetary growth. It was not clear, however, that retention of the 15½ percent upper limit of the range for the federal funds rate would be inconsistent with the desired restraint on monetary growth. Moreover, unsettled conditions in financial markets also suggested no change in the upper limit of the range for the federal funds rate. Consequently, no change was proposed in the domestic policy directive issued at the meeting on October 6.

MEETING HELD ON NOVEMBER 20, 1979

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services was falling in the current quarter following a stronger rebound in the third quarter than had been anticipated at the time of the Committee's meeting on October 6. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to be rising at a pace close to the annual rate of 10 percent in the first three quarters of the year.

Staff projections suggested a further contraction in economic activity during the first half of 1980 and an upturn later in the year. The rise in average prices was projected to moderate slightly as the year progressed, and the rate of unemployment was expected to increase substantially.

Retail sales fell considerably in October, after having expanded rapidly during the third quarter in both constant and current dollars. Sales of new automobiles fell sharply in October and weakened further in early November.

The index of industrial production changed little in October and remained near its midyear level. Nonfarm payroll employment rose substantially after three months of limited gains, but the rate of unemployment edged up to 6.0 percent.

Private housing starts declined in October to an annual rate of 1.76 million units, compared with an average rate of 1.83 million units in both the second and third quarters, and building permits for new housing units fell appreciably. Sales of new and existing single-family homes were at a relatively high level in September, but available information suggested lower combined sales in October.

Producer prices continued to rise at a rapid rate in October, reflecting further sharp advances in energy items and the spreading impact on costs of earlier increases in energy prices. In September consumer prices also continued to move up rapidly, with the most pronounced increases concentrated in the energy, food, homeownership, and apparel components.

In October the rise in the index of average hourly earnings of private nonfarm production workers moderated to an annual rate of about 3½ percent, but over the first 10 months of the year the advance was close to the rapid pace of 1978. Labor cost pressures in the nonfarm business sector had remained intense in the third quarter, reflecting a sharp increase in total hourly compensation and virtually no improvement in productivity.

On October 6 the Federal Reserve announced a series of complementary actions directed toward assuring better control over the expansion of money and bank credit and toward curbing speculative excesses in commodity and financial markets, including foreign exchange markets. The actions included an increase in Federal Reserve Bank discount rates from 11 percent to 12 percent; establishment of a marginal reserve requirement of 8 percent on increases in certain managed liabilities of member banks, Edge corporations, and U.S. agencies and branches of foreign banks; and a shift in the conduct of open market operations to an approach placing greater emphasis in day-to-day operations on the supply of bank reserves and less emphasis on confining short-term fluctuations in the federal funds rate.

At its meeting on October 6, the Committee had decided that over the remainder of 1979 the Manager for Domestic Operations should place primary emphasis on restraining expansion of bank reserves in pursuit of the objective of decelerating growth of M-1, M-2, and M-3 to rates that would hold growth of these monetary aggregates from the fourth quarter of 1978 to the fourth quarter of 1979 within the Committee's ranges for that period. Specifically, the Committee instructed the Manager to restrain expansion of bank reserves to a pace consistent with growth from September to December at an annual rate on the order of 4½ percent in M-1 and 7½ percent in M-2 and M-3, provided that in the period before the next regular meeting the weekly average federal funds rate remained generally within a range of 11½ to 15½ percent. Because such rates of expansion would result in growth of the monetary aggregates in the upper part of their ranges for the year, the Committee also had agreed that over the three-month period somewhat slower growth would be acceptable. The Committee had anticipated that the shift to an operating approach that placed primary emphasis on the volume of reserves would result in both a prompt increase and greater fluctuations in the federal funds rate.

Over the first half of October, measures of bank reserves in general grew faster than had been anticipated at the time of the meeting on October 6, both because demands for reserves were unexpectedly strong and because System operations provided more reserves than had been expected. Subsequently, System operations were directed more firmly at restraining growth of reserves. As such operations limited growth of nonborrowed reserves while demands for reserves remained strong, member bank borrowings rose to a daily average of about $3 billion in the last two statement weeks of October and the federal funds rate rose to an average a little above 15½ percent in the final week. In the first half of November, demands for reserves eased, and member bank borrowings subsided to a daily average of about $2 billion and the federal funds rate declined to an average of about 13½ percent.

From September to the first half of November, total member bank reserves expanded at an annual rate of about 11½ percent, slightly faster than over the three months from June to September. However, expansion of the monetary base and of nonborrowed reserves slowed sharply over the period from September to the first half of November, to annual rates of about 8 percent and 2¼ percent respectively.

Growth of M-1, which had accelerated in September and had been exceptionally rapid in the third quarter as a whole, slowed to an annual rate of 2½ percent in October. Growth of M-2 slowed less than that of M-1, to a rate of about 8½ percent in October, as overall expansion in the interest-bearing components remained strong. A marked rise of net flows into money market certificates and other time deposits at commercial banks, fostered by substantially higher deposit yields, offset a sharp reduction in savings deposits.

At nonbank thrift institutions, inflows into money market certificates and large-denomination time deposits also accelerated in October, but total net inflows slowed somewhat. High interest returns attracted near-record inflows into shares of money market mutual funds.

Growth in loans and investments at commercial banks moderated appreciably in October. With demand deposits and savings deposits weak or declining, however, banks increased their reliance on money market certificates and on the managed liabilities that became subject to marginal reserve requirements in the statement week beginning October 11.

Since early October interest rates had risen sharply in both short- and long-term markets and had been unusually volatile. In this period, banks had raised their loan rate to prime business borrowers from 13$^1/_2$ percent to a new high of 15$^3/_4$ percent. Since the latter part of October, however, short-term market rates had declined from their peaks in apparent reaction to evidence of reduced monetary growth and to some easing of pressure in the federal funds market as bank demands for reserves moderated.

In foreign exchange markets the downward pressure on the dollar that had developed in September was reversed in early October, and by the end of the month, the trade-weighted value of the dollar against major foreign currencies had risen about 3$^1/_2$ percent. Around mid-November, however, the dollar came under renewed downward pressure and lost a portion of its October gain, in part reflecting developments relating to Iran. The U.S. trade deficit increased in September, as the cost of oil imports rose considerably further. For the third quarter as a whole the deficit was somewhat lower than that for the second quarter, however, as strong gains in agricultural and other exports more than offset the large rise in the value of petroleum imports.

In the Committee's discussion of the economic situation and outlook, the members in general agreed with the staff appraisal that the unexpectedly strong rebound in real gross national product in the third quarter would be followed by some contraction in activity and by a rise in unemployment, although uncertainty was expressed about the depth and duration of the anticipated downturn as well as about its precise timing. Some members cited the onset of the heating season with energy prices so much higher than a year earlier, the overall rate of inflation, the recent sharp rise in interest rates, and the developing stringency in some financial markets as influences that might cause the contraction to be relatively severe.

Continuation of the rapid rise in prices of goods and services remained a major concern of Committee members, some of whom thought that the risks were on the side of a rise greater than that currently anticipated. The prospects for supplies and prices of oil, which would have a substantial effect on the economy, were regarded as especially uncertain, in view of the political situation in Iran and of the meeting of petroleum-exporting countries scheduled to begin on December 17.

At its meeting on July 11, 1979, the Committee reaffirmed the ranges for monetary growth in 1979 that it had established in February. Thus the Committee agreed that from the fourth quarter of 1978 to the fourth quarter of 1979, average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1, 1½ to 4½ percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. Having established the range for M-1 in February on the assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year, the Committee also agreed that actual growth of M-1 might vary in relation to its range to the extent of any deviation from that estimate. More recently, it appeared that expansion of such accounts would reduce measured growth of M-1 over the year by about 1½ percentage points. After allowance for the deviation from the earlier estimate, the equivalent range for M-1 was 3 to 6 percent.

In contemplating policy for the period immediately ahead, the Committee took note of a staff analysis indicating that the behavior of the monetary aggregates since September had been reasonably consistent with the policy adopted on October 6, when the Committee had instructed the Manager to restrain expansion of bank reserves to a pace consistent with annual rates of growth from September to December on the order of 4½ percent in M-1 and 7½ percent in M-2 and M-3 but had also stated that somewhat slower growth over the three-month period would be acceptable. The staff analysis noted that growth in M-1 at an average annual rate of 5½ percent in November and December would be consistent with growth at an annual rate of 4½ percent from September to December, although the pattern of change in recent weeks suggested that growth would be below the two-month average in November and above it in December. Growth of M-1 at those rates or even somewhat slower ones would probably be associated with more rapid growth of M-2 over the September–December period than the 7½ percent rate specified in October, because time deposits at banks were continuing to grow faster in relation to demand deposits than had been expected.

In the Committee's discussion of policy for the period immediately ahead, the members indicated that in the present circumstances pursuit of the goal of restraining growth of the monetary aggregates from the fourth quarter of 1978 to the fourth quarter of 1979 within the ranges previously established for that period remained feasible and desirable; they agreed that in pursuit of that underlying goal, the broad objectives for monetary growth during the current quarter adopted at the meeting on October 6 were still appropriate. In contemplating objectives for rates of monetary growth over the weeks through the end of 1979 and into January 1980, the members differed somewhat in their views concerning the extent to which operations should be directed toward promoting acceleration in growth of M-1 from the recently reduced rates. A few members favored operations consistent with the October 6 decision to seek a 4½ percent annual rate of growth in M-1 over the September–December period. A few members favored acceptance of a significantly slower rate of growth for the quarter. Most members, however, advocated a compromise between those two prescriptions. It was recognized that, while the decision affecting such a short period would have quite minor implications for monetary growth over the year ending in the fourth quarter of 1979, it would affect credit and money market conditions in the weeks ahead and the path of monetary growth entering the new year.

Views with respect to an acceptable range of fluctuation for the federal funds rate did not vary greatly. It was agreed that the range should continue to be relatively wide, and most members indicated a preference for retaining the range of 11½ to 15½ percent adopted at the October 6 meeting. Some sentiment was also expressed for reducing the lower limit and some for both reducing the lower limit and raising the upper limit.

At the conclusion of the discussion, the Committee agreed that in the conduct of open market operations over the remainder of 1979, the Manager for Domestic Operations should continue to restrain expansion of bank reserves in pursuit of the Committee's objective of decelerating growth of M-1, M-2, and M-3 over the fourth quarter of 1979 to rates that would hold growth of these monetary aggregates from the fourth quarter of 1978 to the fourth quarter of 1979 within the Committee's ranges for that period; it was recognized that persistence of recent relationships might result in growth of M-2 at about the upper limit of its range. Specifically, the Committee instructed the Manager to restrain expansion of bank reserves to a pace thought to be consistent with growth on the average in November and December at an annual rate of about 5 percent in M-1 and 8½ percent in M-2, provided that in the period before the next regular meeting the federal funds rate remained generally within a range of 11½ to 15½ percent.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services is declining in the current quarter, after the third-quarter rebound, and that prices on the average are continuing to rise rapidly. Retail sales, which had expanded sharply during the third quarter in both constant and current dollars, dropped in October. Industrial production remained near its midyear level. Nonfarm payroll employment rose considerably, after three months of little growth, but the unemployment rate increased from 5.8 to 6.0 percent. Producer prices of finished goods continued to rise rapidly in October, in part because of further sharp increases in energy costs. The rise in the index of average hourly earnings during the first 10 months of the year was close to the rapid pace during 1978.
>
> On October 6 the Federal Reserve announced a series of complementary actions directed toward assuring control over the expansion of money and bank credit and toward curbing speculative excesses in commodity and financial markets, including foreign exchange markets. The actions included an increase in Federal Reserve Bank discount rates from 11 percent to 12 percent; establishment of a marginal reserve requirement on increases in the total of managed liabilities of member banks, Edge corporations, and U.S. agencies and branches of foreign banks; and a shift in the conduct of open market operations to an approach placing greater emphasis in day-to-day operations on the supply of bank reserves and less emphasis on confining short-term fluctuations in the federal funds rate.
>
> Following the announcement on October 6, the downward pressure on the dollar in the exchange markets that had developed in September was reversed, and by the end of October the trade-weighted value of the dollar against major foreign currencies had risen about 3½ percent. In mid-November, however, the value of the dollar declined, reflecting in part developments concerning Iran. The U.S. foreign trade deficit increased in September as the cost of oil imports rose, but the deficit was somewhat lower for the third quarter as a whole than for the second quarter.
>
> Growth of M-1, which had accelerated in September and was exceptionally rapid in the third quarter as a whole, slowed sharply in October to an annual rate of 2½ percent. Expansion of interest-bearing deposits included in M-2 remained strong, as a rise in net flows into time deposits at commercial banks in response to increased yields offset a contraction in

savings deposits. Inflows of deposits at nonbank thrift institutions slowed somewhat. Flows into money market mutual funds accelerated. Growth of commercial bank credit moderated in October; nevertheless, banks increased their reliance on the negotiable, large-denomination CD's and other managed liabilities that became subject to the marginal reserve requirement in the statement week beginning October 11. Both short- and long-term market interest rates have risen sharply on balance since the early October announcement of the System's policy actions, although most recently rates have declined; mortgage interest rates have increased substantially further.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on July 11, 1979, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent respectively, the same ranges that had been established in February. The range for M-1 had been established originally on the basis of an assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year. It now appears that expansion of such accounts will dampen growth by about 1½ percentage points over the year; thus after allowance for the deviation from the earlier estimate, the equivalent range for M-1 is now 3 to 6 percent. The associated range for bank credit is 7½ to 10½ percent. The Committee anticipates that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts. These ranges will be reconsidered at any time as conditions warrant.

In the short run, the Committee seeks to restrain expansion of reserve aggregates to a pace consistent with deceleration in growth of M-1, M-2, and M-3 in the fourth quarter of 1979 to rates that would hold growth of these monetary aggregates over the whole period from the fourth quarter of 1978 to the fourth quarter of 1979 within the Committee's longer-run ranges, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 11½ to 15½ percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: None. (Mr. Timlen voted as an alternate member.)

2. Authorization for Domestic Open Market Operations

On December 20, 1979, the Committee voted to increase from $3 billion to $4 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on January 9, 1980.

Votes for this action: Messrs. Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: None. Absent and not voting: Mr. Volcker. (Mr. Timlen voted as an alternate member.)

This action was taken on recommendation of the Manager for Domestic Operations, System Open Market Account. The Manager had advised that since the November meeting large-scale purchases of securities primarily to counter the effects of seasonal increases in currency in circulation had reduced the leeway for further purchases to about $500 million. It appeared likely that additional purchases would be required because projections indicated a need for further reserve-providing operations over the coming weeks.

Consumer Affairs

INTRODUCTION

The Board of Governors reorganized and strengthened its Division of Consumer and Community Affairs in 1979 to deal effectively with the new responsibilities assigned to it by the Congress for protecting consumer credit needs at the community as well as at the individual level. Also in the year just past, the Board expanded and improved its programs for enforcing laws on consumer credit protection and encouraging compliance with them, extended its regulations to implement consumer-protection features of the new Electronic Fund Transfer Act, and continued work on simplification of its rules under the Truth in Lending Act.

The division collaborated with the public affairs units of the Board and the Reserve Banks in a nationwide effort to expand consumer understanding of the public's rights under the consumer credit protection laws.

The organizational changes were designed to permit the Board's division dealing with consumer credit legislation to meet the responsibilities the Congress has assigned to the Board under the Community Reinvestment Act and other federal programs for community development. Under the reorganization an associate director of the division was to be responsible for coordinating the Board's community affairs activities.

The division will assist other Board divisions in administering the Board's Regulation BB (Community Reinvestment Act), which implements the Community Reinvestment Act, as well as Board activities under the National Neighborhood Reinvestment Corporation, the Commercial Reinvestment Task Force, and the Interagency Staff Task Force on Urban Credit.

The division also assumed responsibility for maintaining liaison with, and assisting, CRA officers at the Reserve Banks, who have been designated as contacts for community organizations and banks for community development and revitalization matters.

The division will continue to administer the Board's responsibilities under 10 consumer credit protection laws, including those on truth in lending, fair credit billing, consumer leasing, equal credit opportunity, home mortgage disclosure, fair housing, fair credit reporting, fair debt collection practices, and electronic fund transfer, and section 18(f) of the

Federal Trade Commission Improvement Act, which deals with unfair or deceptive banking practices.

Community Reinvestment Act

The CRA requires the Federal Reserve and other federal supervisors of financial institutions to encourage banks and other lenders to help meet the credit needs of the local communities in which they are chartered, within the bounds of safe and sound banking. The federal regulators are required by the act to assess the record of institutions they supervise in this respect when considering an application from a lender to expand, merge, or take other actions requiring federal approval. The act is aimed at encouraging financial institutions to give attention to the credit needs of low- and moderate-income areas of their communities.

Late in 1979 the Board approved issuance of an information statement to guide those affected by the CRA. The statement was forwarded to the Federal Financial Institutions Examination Council for the consideration of the other federal regulators of financial institutions. The Board's statement, published in full later in this section, was addressed to state member banks and to bank holding companies. In it the Board states its policy of encouraging meetings between applicants and protesting parties to help solve problems. It announces its intention to develop a procedural guide for the public, subject to change as more experience accumulates, and to coordinate this effort with other federal agencies charged with supervision of financial institutions.

The Board's statement noted that some protests alleged that certain lenders have a poor CRA record because the institution did not lend as much in a community as that community deposited with it. In this connection, the Board noted that

> Although CRA is directed at the problem of meeting sound community credit needs, it was not intended to establish a regulatory influence on the allocation of credit. . . .
>
> The Board believes that there are many reasons why a particular neighborhood may generate more deposits than loan requests, or more requests than deposits, and that disparity in a particular local area between credit granted and deposit totals is not prima facie evidence of discrimination. . . .
>
> However, the Board views as a serious matter disparities in lending to different areas that do not appear to be fully attributable to safety and soundness considerations or to factors beyond a bank's control.

The Board's statement included these other principal points:

- When faced with evidence of such disparities the Board will inquire closely into the bank's efforts to ascertain credit needs and to make the community aware of its credit services and into any policies or practices that may discourage credit applications from, or discriminate against, parts of the bank's community.

- The Board expects banks to offer throughout their communities the types of loans it lists in its CRA statements.
- The Board will give weight to concerted efforts by lenders to improve low- and moderate-income areas of their communities.
- In some cases the Board may take into account commitments for future action, as it has long done in assessing the effect of approval or disapproval of an application on the banking convenience and needs of a community.
- When it does give favorable weight to such commitments, the Board will review the results closely in considering future applications.
- Just as the Board expects that a bank will communicate responsibly with all segments of its community, it also expects that community organizations filing protests will investigate complaints and document them.
- In its policy of fostering communication between lending institutions and their communities by bringing them together to consider protests, the Board has taken these positions: (1) even if a protest is withdrawn, the Board is obligated to consider the applicant's CRA record; (2) any decision to negotiate rests with the parties involved; and (3) the Board will not necessarily approve an agreement between the parties.
- The Board does not endorse agreements to allocate credit.

Consumer Education

The Board's "Consumer Handbook to Credit Protection Laws," first issued late in 1978, was reprinted in 1979 and has become the Board's most popular publication on consumer credit protection. Through the end of 1979, 3 million copies of the 46-page booklet had been produced. It was distributed through the Federal Consumer Information Center, credit bureaus, and other bank regulatory agencies. Some 35,000 teachers in junior high and high schools and in colleges received copies for classroom use. The handbook explains consumer rights under the major consumer credit protection laws and the ways borrowers can shop for credit, apply for it, keep up their credit standing, and complain about abuses. The handbook also includes a glossary of terms used in credit transactions and in laws and regulations on credit protection.

In other actions in 1979 to increase understanding of the laws on consumer credit protection, the Federal Reserve released a film ("To Your

Credit") designed for school and television use and produced by the Federal Reserve Bank of Philadelphia. Furthermore, the Board and several Reserve Banks, in collaboration with educational authorities, developed workshops and lectures to educate teachers about the laws on consumer credit protection and to inform them of materials available from the Federal Reserve.

Compliance

Early in 1979 the Board strengthened and made permanent an experimental program in operation since 1977 for improving the enforcement of consumer and civil rights laws applicable to state member banks. The program included special training of bank examiners to detect credit discrimination, detailed in a Compliance Handbook for examiners; closer monitoring of banks with poor performance records; strengthened procedures for investigating complaints; appointment of civil rights specialists in each Reserve Bank; designation of attorneys at the Board as civil rights specialists; and development of career ladders to attract and hold examiners specializing in consumer credit protection and civil rights. The System continued to offer to all state member banks educational and advisory services on consumer credit protection and civil rights laws.

Truth in Lending and Electronic Fund Transfer

The Truth in Lending Simplification and Reform Act, Title V of the Depository Institutions Deregulation Act of 1979, continues under active consideration by the Congress. The Board of Governors favors reform of Truth in Lending through legislation. If the bill is not enacted, the Board will attempt to simplify Truth in Lending through revision of Regulation Z. Staff drafts of a revised Regulation Z dealing with installment credit and open-end credit were distributed to the Consumer Advisory Council and made available to the public in the summer of 1979.

During 1979 the Board wrote a new regulation, Regulation E (Electronic Fund Transfers), as directed by the Congress, to implement the consumer credit protection aspects of the Electronic Fund Transfer Act. Some provisions of the act became law in March 1979, while others were not to be effective until May 1980.

Working to this schedule of effective dates, the Board in 1979 adopted a number of rules to implement the EFT act:

- Limiting consumer liability for the unauthorized use of EFT cards (plastic cards that can be used to withdraw funds from an automated teller or to debit a consumer's checking account, for purchases of goods or services).
- Dealing with the circumstances under which EFT cards may be used.
- Making written notice of loss or theft of an EFT card effective when the consumer mails or otherwise transmits the notice.
- Setting forth disclosures that must be made to consumers using EFT cards.
- Establishing requirements for retention of records by companies offering EFT services to the public.

At the close of the year, the Board had proposed rules relating to the requirements of the EFT act that were to become effective in May 1980.

Consumer Advisory Council

The Board met three times in 1979 with its Consumer Advisory Council. The Council, whose members include both consumer and creditor representatives, was established in 1976 to advise the Board on consumer-related matters.

At its meetings in 1979 the Council focused on reconciling the differences between the Electronic Fund Transfer Act and the Truth in Lending Act, on the proposed revision of Regulation Z (Truth in Lending) designed to increase its effectiveness and facilitate creditor compliance, on the costs and benefits of consumer credit regulations, and on Regulation Z enforcement guidelines.

William D. Warren, Dean of the School of Law of the University of California at Los Angeles, was elected chairman, and Marcia A. Hakala, Assistant to the Vice Chancellor, University of Nebraska Medical Center, was elected vice chairman.

Other Activity

During the year the Board recommended to the Congress simplification and standardization of the varying requirements under the Electronic Fund Transfer, Truth in Lending, and Fair Credit Billing Acts, concerning error correction and the rights, duties, and liabilities of consumers. These legislative recommendations are discussed in detail in the Board's Annual Report on Truth in Lending for 1979, included at a later point in this section. Other aspects of the Board's activities in the consumer credit protection and civil rights fields in 1979 are discussed in more detail in the Truth in Lending Annual Report, in the Board's Annual Report on Equal Credit Opportunity, and in other parts of this section.

TRUTH IN LENDING

This 11th Annual Report on the Truth in Lending Act (dated January 3, 1980) discusses Truth in Lending simplification, the uniform enforcement guidelines, the extent to which compliance with the act is being achieved, the Consumer Advisory Council, the rulemaking functions of the Board of Governors of the Federal Reserve System under the act,and the efforts of the Board and other regulator agencies to educate consumers and creditors about their rights and responsibilities under the act. Recommendations concerning amendments to the act are discussed under "Legislative Recommendations."

Simplification of Truth in Lending

The Truth in Lending Simplification and Reform Act, Title V of the "Depository Institutions Deregulation Act of 1979," continues to be under active consideration by the Congress. The Board favors reform of Truth in Lending through legislation. If the bill is not enacted, the Board is prepared to attempt to simplify Truth in Lending through revision of Regulation Z. Staff drafts of a revised Regulation Z dealing with installment credit and open-end credit were distributed to the Consumer Advisory Council and made available to the public in the summer of 1979. Although comments have been reviewed by the staff, the Board has taken no further action in the hope that the Truth in Lending reform legislation will be enacted.

Guidelines for Uniform Enforcement of Truth in Lending

On December 28, 1978, the Board, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Federal Home Loan Bank Board (FHLBB), and the National Credit Union Administration (NCUA) announced adoption of uniform enforcement guidelines for the Truth in Lending Act and Regulation Z. These guidelines, which became effective in January 1979, set standard criteria for compliance and application of enforcement measures, including reimbursement, when violations of Regulation Z are discovered.

As the five agencies began to administer the enforcement guidelines, a number of significant difficulties were encountered. As a result, the agencies issued a joint statement in October 1979 proposing three amendments and putting forth for public comment three questions about the guidelines. The proposed amendments should provide the flexibility necessary for implementation of the reimbursement policy.

The first proposed amendment would increase the tolerance permitted for disclosure of the annual percentage rate from ⅛ to ¼ of 1 percentage point. The second amendment would change the provisions regarding retroactive application so that they relate more closely to the date the creditor was informed of the violation through an examination report or was informed of the potential for reimbursement through publication of the guidelines. The third amendment would add a phrase to the guidelines to make clear that the agencies retain flexibility to respond to unique circumstances or significant problems. This step toward simplification would avoid the costs and administrative burdens of interagency coordination and action in situations that apply to very few institutions.

The joint statement asked about (1) the direct and indirect costs associated with implementation, and opinions on possible amendments to the guidelines to reduce administrative burdens on financial institutions while assuring benefits to consumers; (2) whether mortgage lending should be treated differently for reimbursement purposes because it has unique characteristics; and (3) whether the five states granted exemptions from most of the federal Truth in Lending requirements should be required to adopt an enforcement program with reimbursement rules similar to those in the guidelines.

The comment period expired on December 21, 1979, and summaries of comments are expected to be available in early 1980.

Compliance

Many of the federal enforcement agencies reported significant new efforts to promote compliance with the Truth in Lending Act and Regulation Z. In February 1979 the Board announced an expanded and strengthened program to improve compliance of state member banks with consumer regulations. Elements of the program relevant to enforcement of Regulation Z are expansion of the Board's examiner training program; continuation of educational/advisory services to state member banks; establishment of distinct career ladders for consumer affairs and civil rights examiners; changes in frequency of examinations, providing more time for follow-up examination of problem banks; and dissemination of the *Federal Reserve System Compliance Handbook* to System examiners and all state member banks. The Board also held several conferences in 1979 for Federal Reserve District consumer supervisors and senior examiners to explore ways of strengthening examination techniques and reporting procedures.

The Board issued cease-and-desist orders against two state member banks that had engaged in practices that violated federal consumer credit protection laws, including Regulation Z. The first bank had repeatedly failed to correct practices that violated Regulations Z and B and the Fair Credit Reporting Act, among others. The second bank, in violation of Regulation B, had a standard policy of requiring spouses of married borrowers to sign debt instruments on mortgage loan transactions. Also, by failing to make certain required disclosures of adverse actions, the bank had violated the Fair Credit Reporting Act. These cease-and-desist orders were settled on a consent basis.

In April 1979 the OCC established a consumer examiner career path and a position of Regional Director for Customer and Community Programs in each of its regional offices. The OCC has reported that the examiner training program devoted to Regulation Z was improved and was made available in 1979 to more examiners.

Throughout 1979 the Federal Trade Commission (FTC) conducted an industrywide investigation to determine whether creditors disclosed the cost of credit correctly to consumers and otherwise complied with the law. The FTC has reported that it is also preparing a manual to help advertisers comply with the act's provisions on credit and lease advertising.

The NCUA reported that it printed and distributed a series of letters designed to keep federal credit unions informed about Regulation Z enforcement guidelines. The series was supplemented in 1979 by 20 educational seminars conducted for officers and staff of federal and state credit unions.

The FDIC reported that it approved a plan in April 1979 to provide for examiners specializing in the administration of consumer protection and civil rights laws and regulations, including Regulation Z. Between October 1, 1978, and September 30, 1979, the FDIC initiated six cease-

and-desist orders dealing in part with continuing violations of Regulation Z. Five other cease-and-desist orders became final during this period, and five existing orders were terminated.

Each enforcement agency and exempt state has estimated the annual cost of its compliance effort in connection with the Truth in Lending Act. While these figures are not strictly comparable, the total estimated expenditures for the nine federal enforcement agencies exceeded $9.8 million in 1979, with the largest expenditures reported by the FDIC, the Comptroller of the Currency, the Federal Reserve Board, and the NCUA. The five exempt states reported expenditures slightly over $1 million.

The agencies and exempt states responsible for enforcing the Truth in Lending Act have reported varying assessments of the extent to which creditors are complying with the act. Several federal agencies, including the FHLBB, and all of the exempt states, have reported a fairly close compliance with the substantive provisions of the act.

According to the OCC, creditor compliance with the act improved significantly during 1979. There was a reduction in the number of banks with reimbursable violations; greater national bank interest in compliance, as expressed through more numerous requests for information; growing public awareness of the law, indicated by more consumer complaints; and the increased use of various manuals that the OCC has helped trade associations develop.

The OCC and the FTC both have found evidence from consumer complaints of noncompliance with the Fair Credit Billing Act. The FTC has commented that, due to the number of technical problems, it may be impossible to determine the extent of noncompliance with the act in case of creditors that preserve evidence of compliance on computers. Other persistent violations of the Truth in Lending Act, according to the FTC, include failure to make any disclosures of the optional nature of credit insurance, and to make other disclosures before consummation of the transaction.

The FTC has cited significant enforcement activities in 1979. In one instance, a consent order prohibits a large oil company from collecting from a credit cardholder for purchases made by a second person after the company has been notified that that use of the card is not authorized. Such billing violates the Truth in Lending Act, which limits a cardholder's liability for unauthorized use of a credit card to $50.

The FTC attributes the widespread compliance with the disclosure requirements of the Consumer Leasing Act to the Board's issuance of sample lease disclosure statements. Compliance with advertising provisions of the Consumer Leasing Act, however, is substantially lower, according to the FTC.

The NCUA has reported a continued greater discovery of noncompliance with the Truth in Lending Act and Regulation Z, and believes that it results from improved examination techniques and tools, staff training, and a general concentration on enforcement. The NCUA expects 1979 levels of compliance to remain stable on a month-to-month basis until all federal credit unions have been examined under revised procedures.

The FDIC has reported little change since 1978 in either the compliance rate or types of violations most frequently cited.

Reported violations increased slightly in 1979, but the Board does not attribute this development to deteriorating compliance with consumer law. Rather, improved training has made examiners increasingly sophisticated and therefore better equipped to detect the less obivous violations.

The Board's records and summaries of examination findings compiled by the FDIC, FHLBB, and the NCUA indicate that the most frequently cited violations of the act are (1) failure to disclose either the correct finance charge or the annual percentage rate; (2) failure to furnish the notice of the right to rescind; (3) failure to identify the sum of periodic payments as "total of payments"; (4) inappropriate mixing of 360- and 365-day factors in calculations of the annual percentage rate; (5) failure to include all elements of a finance charge; (6) improper rounding of the annual percentage rate; (7) failure to obtain separately signed and dated credit life insurance authorizations; and (8) failure to disclose the cost of property insurance and the fact that it can be obtained through any insurer of the consumer's choice.

Consumer Advisory Council

Established in 1976 to advise the Board on consumer-related matters, the Consumer Advisory Council includes both consumer and creditor representatives. At its three meetings in 1979, the Council focused on reconciling the differences between the Electronic Fund Transfer and Truth in Lending Acts, the proposed revisions of Regulation Z designed to increase effectiveness and facilitate creditor compliance, the costs and benefits of consumer credit regulations, and the Regulation Z enforcement guidelines.

Rulemaking Functions

The Board of Governors of the Federal Reserve System is responsible under the Truth in Lending Act for writing and amending rules implementing the act, issuing interpretations of the rules, and granting state exemptions from certain parts of the act.

Amendments and Interpretations of Regulation Z

In 1979 the Board of Governors issued one amendment and revoked one amendment and a related interpretation of Regulation Z.

Extension of prohibition against surcharges. Effective March 5, 1979, the Board of Governors amended its Regulation Z to extend to February 27, 1981, the prohibition against surcharges. This amendment followed enactment of the Financial Institutions Regulatory and Interest Rate Control Act, which extended the prohibition against surcharges.

Revocation of amendment exempting open-end credit arrangements from rescission requirements. On September 27, 1979, the Board revoked an amendment to Regulation Z, effective March 31, 1980. In its original form, Regulation Z had required creditors to give a customer a three-day "cooling off" period in which to cancel each separate advance under an open-end credit plan (such as a credit card or overdraft checking account) when the credit was secured by the customer's principal residence. The revoked amendment provided an alternative to that requirement.

When the amendment was adopted by the Board in July 1978, Consumers Union questioned the Board's authority under the Truth in Lending Act to take the action (see the "Significant Litigation" section). Others also urged the Board to reconsider the amendment on grounds that interested parties might not have been aware of the proposal. The Board solicited public comment on the issue; and it acted after having considered about 160 comments.

At the same time that the amendment was revoked, the Board also revoked a related Board interpretation that sets forth model disclosures that creditors may use to comply with notice requirements of the amendment. The result of the revocations will be to require that a notice of the right of rescission be given with each credit advance after March 31, 1980, pursuant to any open-end credit plan secured by a customer's principal residence.

Proposed Amendments to Regulation Z

In developing enforcement guidelines for Regulation Z, the need for broader tolerances in computing the annual percentage rate and finance charges became apparent. Also, piecemeal Board and staff interpretations have authorized several methods of computing the annual percentage rate that produce different results. Because it is necessary to have a single, theoretically perfect annual percentage rate from which to measure tolerances, the Board requested comment on the appropriate tolerances, the proper method of computing the annual percentage rate, and related matters. The Board published a series of proposals for comment and is expected to act late in 1979.

State Exemptions

No new exemptions from the requirements of chapter 2 of the Truth in Lending Act were granted in 1979.

Significant Litigation

In a suit entitled *American Bankers Association* v. *Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation*, which was filed with the federal Court of Appeals in Washington, D.C., on August 7, 1979 (No. 79–2006), the American Bankers Association (ABA) requested the court to declare illegal the "uniform guidelines" (*Federal Register*, volume 44, 1979, page 1222) to enforce the Truth in Lending Act. The ABA argues that the agencies adopting and enforcing the guidelines have acted without reasonable basis in law or fact. The case is pending.

In *Consumers Union of the United States, Inc.* v. *Miller*, which was filed with the Federal District Court for the District of Columbia on December 5, 1978 (No. 78–2188), Consumers Union asked the court to declare that the Board had overstepped its statutory authority when it amended Regulation Z (*Federal Register*, volume 43, 1978, page 3411). The amendment, effective August 3, 1978, provided alternative means for complying with the requirements about the right of rescission as applied to open-end credit transactions. On September 27, 1979, the Board revoked that amendment (*Federal Register*, volume 44, 1979, page 5553), and on October 12, 1979, a voluntary dismissal of the action was filed with the court.

In *Ford Motor Credit Company et al.* v. *Milhollin et al.*, Ford appealed to the Supreme Court (No. 78–1487) about a decision by the United States Court of Appeals for the Ninth Circuit concerning the disclosures required under the Truth in Lending Act and Regulation Z with respect to a creditor's contractual right of acceleration. As requested by the Supreme Court, the Board, through the Department of Justice, filed a brief *amicus curiae*, arguing that official staff interpretations should be given substantial weight in construing the law. Oral argument, in which the Justice Department participated, was held on December 11, 1979, and the case is awaiting a decision by the Court.

Education

In 1979 the Federal Reserve System provided a variety of educational materials and activities in support of consumer and creditor education. The *Consumer Handbook to Credit Protection Laws*, first printed at the end of 1978, was reprinted in 1979; 3 million copies of the 46-page booklet have been produced. Dissemination of the handbook was expanded through distribution by the federal Consumer Information Center, credit bureaus, and other bank regulatory agencies. The *Consumer Handbook*, probably the most popular Board publication for consumers, summarizes the main provisions of seven major laws on consumer credit protection: Truth in Lending, Consumer Leasing, Real Estate Settlement Procedures, Equal Credit Opportunity, Home Mortgage Disclosure, Fair Credit Reporting, and Fair Credit Billing. It also contains a glossary of technical terms used in credit transactions and in laws and regulations on credit protection.

The Federal Reserve released a color film, "To Your Credit," in 1979. Designed for school and television use, the film illustrates the consumer credit protection afforded by Regulations B and Z. So far, in showings by all of the Federal Reserve Banks to consumer and student groups, the film has had an audience of about 1½ million.

In April 1979 the Board joined with the White House and other federal, state, and private agencies to exchange ideas related to the promotion of consumer education.

The Federal Reserve System sponsored workshops and lectures throughout the country to encourage consumer education in high schools. The Board and the Federal Reserve Banks of Minneapolis, San Francisco, Philadelphia, New York, and St. Louis offered workshops for teachers to learn about consumer credit protection laws and educational materials available from the Board and other sources.

The Federal Reserve Bank of San Francisco used television spot announcements to publicize consumer pamphlets. The Federal Reserve Bank of New York has produced and distributed a variety of materials for consumers, including several pamphlets on creditworthiness and the use of credit; bookmarks with information on Truth in Lending, annual percentage rates, and finance charges; and a pocketsize "credit dictionary" promoted through radio and television. About 250,000 copies of the *Consumer Credit Terminology Handbook* were distributed nationwide in 1979. Virtually all of the Federal Reserve Banks reported an increase in 1979 in speaking engagements related to consumer education.

Federal enforcement agencies and the exempt states are continuing their efforts to inform consumers and creditors about their rights and responsibilities under the Truth in Lending Act.

Working closely with both the Consumer Bankers Association and the American Bankers Association, the Comptroller of the Currency has played an important role in developing and updating educational manuals for bankers, including *The Most Common Violations Found in Consumer Compliance Examinations and How to Correct Them, The OCC's Computational Procedures for Verifying Annual Percentage Rates*, and *A Planning Guide for Consumer Compliance*.

The Federal Trade Commission published a pocketsize booklet, *Credit Shopping Guide*, modeled after material developed by Maine's Bureau of Consumer Protection, and consumer fact sheets on the Truth in Lending Act, Fair Credit Billing Act, and Consumer Leasing Act. The Federal Trade Commission participates in seminars to educate lawyers representing clients concerned about compliance with federal credit statutes.

The Federal Home Loan Bank Board has established a committee to plan forms, charts, and other guides to aid the industry in complying with Regulation Z.

The Federal Deposit Insurance Corporation provides information to bankers largely through the examination process. Consumers get information primarily in response to complaints and inquiries processed by regional offices and through consumer pamphlets.

In 1979 Oklahoma's Department of Consumer Credit presented more than 150 lectures on Truth in Lending; requests for speakers came from colleges, high schools, low-income groups, civic and senior citizen clubs, and vocational schools. Connecticut operated a toll-free service on consumer credit information. Wyoming distributed a substantial number of copies of their handbook, *Consumer Credit and the Code*, to secondary school superintendents; as hoped, the superintendents ordered the handbook for teacher use. Maine initiated the *Consumer Credit Newsletter* to keep creditors informed of regulatory activity, and a consumer credit guide program to encourage comparative shopping for credit; the Maine Bureau of Consumer Protection also reprinted the *Down Easter's Pocket Credit Guide* with expanded interest rate tables. The Office of the Bank Commissioner of Massachusetts has reported educational activities, including newspaper and magazine articles, speaking engagements, and visits to credit grantors by field examiners.

EQUAL CREDIT OPPORTUNITY

The fourth Annual Report on the Equal Credit Opportunity Act (ECOA) discusses the enforcement of the act and Regulation B by the Federal Reserve System and assesses the compliance of state member banks with the act. It also examines the enforcement activities of other federal agencies and their assessments of the compliance of creditors that they supervise. The report then describes the Consumer Advisory Council and its activities relating to the act and regulation and gives an account of the uniform guidelines for enforcement of the Equal Credit Opportunity Act, Regulation B, and the Fair Housing Act. Finally, it reviews the Board's rulemaking activities under the act, the legislative recommendations for amending the act submitted to the Board by other agencies, and the educational efforts by the Board and other enforcement agencies.

This report does not contain recommendations of the Board for statutory amendments. Such recommendations, if any, will be made in the 66th Annual Report of the Board of Governors to the Congress.

Enforcement and Compliance

The Federal Reserve System and other agencies have been charged by the Congress to enforce compliance with the ECOA of the institutions they supervise.

Federal Reserve System

The Federal Reserve exercises its enforcement functions under the ECOA principally through examinations of member banks and investigation and resolution of complaints.

In February 1979 the Board announced an expanded program to improve the compliance of state member banks with the consumer protection laws, particularly the ECOA and other civil rights statutes. The program provided Federal Reserve Banks with a variety of resources to strengthen procedures for detecting unlawful credit discrimination. Allocations for hiring consumer affairs and civil rights examiners were doubled, regional seminars were conducted, examiner training was intensified, census data were distributed to give examiners a demographic picture of the communities that state member banks serve, and the *Federal Reserve Compliance Handbook* was published and distributed. The *Handbook* outlines new examination procedures and provides tools, such as those for a standardized comparison of credit applicants, to help examiners detect credit discrimination. The *Handbook*, which includes a substantial section on the history of civil rights legislation in this country, also details a new procedure that requires consideration of on-site investigations of serious consumer complaints, such as those alleging credit discrimination. Other features of the program include the continuation of an educational-advisory service for member banks provided by the Federal Reserve Banks, and an adjustment of the frequency of special consumer affairs and civil rights examinations so that banks with lower ratings receive examinations more frequently than heretofore.

Examinations. The Federal Reserve System enforces the act and Regulation B through its examination of state member banks and investigation of consumer complaints. Specially trained consumer affairs and civil rights examiners from the Federal Reserve Banks conduct the examinations, and the Board's Division of Consumer and Community Affairs reviews selected examination reports to determine the compliance of individual banks and to evaluate and improve the examination program.

To ensure that its examiners are thoroughly familiar with Regulation B and other consumer and civil rights laws, the Board conducted two schools lasting two and one-half weeks in 1979, which were attended by 58 System examiners and representatives of other regulatory agencies. Instructors included examiners from the Reserve Banks, review examiners and attorneys from the Board's staff, and staff members from other agencies, such as the Department of Justice. The instruction included a thorough history of civil rights laws and an analysis of court cases and their effect on civil rights legislation.

After adoption of the new enforcement program, the Board's staff conducted three regional seminars at the Reserve Banks to inform the field staff of the new procedures. To aid examiners' further education, the Board also rotates examiners from the Reserve Banks to work with the Board staff. In addition, the Board's staff frequently communicates with System examiners about current developments.

In 1979 about 77 percent of the state member banks examined were reported as not being in full compliance with Regulation B, not a significant improvement over 1978, when 78 percent of the banks examined were reported as having violations of the regulation. Since improved examination techniques are likely to lead to more discoveries of violations, the Board believes that actual compliance may have improved more than is indicated by the figures. Examples of the kinds of violations that were found are failures to send notification of adverse action within 30 days; to comply with signature rules; to disclose specific reasons for a denial of credit; to establish a procedure to collect monitoring information; and to explain that "other income," such as alimony, need not be revealed unless the applicant wants that income considered in determining creditworthiness.

During examinations, Reserve Bank examiners explain the nature of any violations found and outline the corrective action necessary for compliance. At the conclusion of the examination, state member banks are either in compliance or have agreed to take specific actions to prevent the recurrence of violations.

In 1979 the Board entered into two cease-and-desist orders with state member banks that had failed to correct practices in violation of Regulation B and other consumer credit laws. The first bank had repeatedly failed to disclose the optional nature of requests for information regarding other sources of income and to correct its prohibited use of terms regarding marital status on forms used in determining the creditworthiness for individual unsecured credit. The second bank had a standard policy of requiring spouses of married borrowers to sign debt instruments on mortgage loan transactions, and it violated other provisions of Regulation B as well. Both cease-and-desist orders were settled on a consent basis, and both settlements required, among other things, appointment of a compliance officer and the training of bank employees in consumer protection and civil rights laws.

Consumer complaints. The Federal Reserve System replies to complaints and inquiries in many areas of consumer activity. Responses range from providing consumers with information or explanations of laws to investigations that may reveal errors by state member banks. If bank errors are found, the bank is required to take corrective action. In keeping with the Board's special efforts on civil rights enforcement, separate procedures have been developed that require consideration of the on-site investigation of complaints alleging illegal credit discrimination.

From January 1, 1979, to November 30, 1979, the Board received 51 complaints alleging violations of Regulation B by state member banks. About 75 percent, or 38 complaints, charged unfair denial, termination, or change in terms of credit. Fourteen of these complaints alleged unfair treatment on the basis of characteristics protected by the act: five alleged unfair treatment based on sex; three, on age; two, on race, color, or national origin; two, on source of income; one, on marital status; and one, on exercise of rights under the Consumer Credit Protection Act. Of the other complaints, six were on credit history; three, on level of income; one, on length of residency; one, on length of employment; and thirteen, on miscellaneous bases.

Of the 38 complaints, 29 percent were resolved through correcting the complainant's misunderstanding of the law; 27 percent through investigation that revealed no bank error; 3 percent through investigation that revealed a factual dispute between the complainant and the bank, so the consumer was referred to an attorney; and 3 percent through investigation that revealed a possible bank violation. Three percent were referred to other agencies for resolution. As of November 29, 1979, the remaining 32 percent were still under investigation.

Other Agencies

Most of the federal agencies responsible for enforcing the Equal Credit Opportunity Act and Regulation B have reported an apparent improvement in compliance in 1979. Statistics from summaries of examination reports of the Board, the Federal Deposit Insurance Corporation (FDIC), the Federal Home Loan Bank Board (FHLBB), and the National Credit Union Administration (NCUA) show varying improvements. The Small Business Administration (SBA), the U.S. Department of Agriculture

(USDA), the Civil Aeronautics Board (CAB), and the Farm Credit Administration (FCA), all report that compliance among the creditors they supervise generally appears good.

Federal Trade Commission. The Division of Credit Practices in the FTC's Bureau of Consumer Protection is responsible for research, investigation, and enforcement activities related to multiregional and national creditors. To identify potential violators of the act, the division relies upon information supplied by consumer complainants and by consumer and civil rights organizations, and referrals from other federal and state enforcement agencies. When investigations reveal significant law violations, the FTC may seek adjudication, either through its own adjudicative processes or through a U.S. district court; if litigation is not warranted, it may recommend acceptance of an agreement to cease and desist from violations and to provide remedial relief to aggrieved consumers.

According to the FTC, overall compliance with the act has improved among creditors within its jurisdiction. At the same time, the FTC believes certain types of discriminatory practices persist—such as improper requests for signatures of, or information about, an applicant's spouse. The sales finance and small loan industries were mentioned particularly in relation to such practices.

Investigation of the practices of mortgage lenders, sales finance, and small loan companies suggests, according to FTC reports, that subtle forms of discrimination may be replacing the more blatantly discriminatory lending practices documented during the enactment of the ECOA. Practices such as discriminatory discouragement of applications, the FTC has noted, are not detectable with traditional investigative techniques because such techniques involve no documents and are not part of the written operating procedures of the companies involved.

In 1979 the FTC took formal action against two major creditors for violating the ECOA. The first, which involved a large retail company, resulted in a consent judgment that required, among other things, that the company provide consumers with specific principal reasons for adverse action when credit is denied. The second, also resolved through a consent agreement, enjoined a large sales finance company from certain illegal practices, such as using prohibited information on marital status in the evaluation of applications, failing to provide specific principal reasons for adverse action, and failing to comply with recordkeeping requirements of the regulation. Several investigations that did not warrant formal actions were resolved voluntarily after the creditors had agreed to modify their policies and practices.

According to FTC reports, fewer complaints relating to discrimination in credit were received in 1979 than in the previous year.

National Credit Union Administration. The NCUA enforces consumer protection and civil rights laws through examination of federal credit unions and investigation of consumer complaints. The NCUA has reported a number of efforts toward more effective enforcement of consumer protection laws, such as doubling the number of NCUA regional consumer affairs analysts, making separate examinations for consumer compliance, and establishing eight consumer-compliance examiner districts for each of the NCUA's six regions.

The NCUA has reported that, during the month ending September 30, 1979, 44 percent of the 172 institutions that were examined had violations of Regulation B. The NCUA says that, for the most part, the violations resulted from unacceptable loan applications, failure to identify loan accounts for proper credit reporting, and improper signature requirements.

The NCUA has reported receiving 150 complaints related to the ECOA. Of those, 61 alleged discrimination based on race or national origin; 16, on sex; 15, on marital status; 9, on age; 5, on receipt of public assistance; 2, on the exercise of rights under the Consumer Credit Protection Act; and 31, on miscellaneous bases. The NCUA also received 11 complaints regarding adverse action notices.

Federal Deposit Insurance Corporation. The FDIC enforces the ECOA and Regulation B with regard to insured nonmember banks. Its program allows for each bank to be examined at least once every 18 months. Examiners report violations to regional offices, which are responsible for encouraging voluntary compliance by the banks before recommending administrative action.

The FDIC has reported that during the period from October 1, 1978, through September 30, 1979, it reviewed 5,824 pages of reports on violations of Regulation B. Apparent violations were indicated in 2,938, or about 50.4 percent, of these reports, compared with 51.3 percent in 1978.

The violations most frequently reported—in 22 percent of the reports—involved failure to notify applicants of adverse action. Failure to advise that "other income" need not be revealed unless the applicant wants it considered as income was noted in 6.2 percent of the reports, improper requests for a spouse's signature were cited in 6.1 percent, and failure to designate accounts in which both spouses participate was listed in about 6 percent. During the first 10 months of 1979, the FDIC brought five cease-and-desist actions charging violations of the act and Regulation B.

The FDIC has reported receiving 406 complaints and 90 inquiries concerning equal credit opportunity. The largest percentage concerned the notice of adverse action, alleged discrimination based on sex or marital status, and alleged discrimination based on race or age.

Federal Home Loan Bank Board. The ECOA is enforced by the FHLBB through examinations and the investigation of consumer complaints. If voluntary compliance is not achieved, the FHLBB may issue a cease-and-desist order. Consumer complaints are referred to the supervisory agents, who are responsible for investigation and resolution, and the disposition of each case is reported to the FHLBB.

Between October 1, 1978, and September 30, 1979, the FHLBB conducted 3,350 regular examinations; of these, 1,198, or about 36 percent, revealed violations of the ECOA. Since the FHLBB reported that 53 percent of the creditors under their jurisdiction were in apparent violation in 1978, compliance seems to have significantly improved in 1979.

The total number of Regulation B violations reported was 8,658. The majority were due to requests for improper information, failure to notify applicants properly of adverse action or to conform to requirements for adverse-action notices, and failure to obtain monitoring information.

During the period January 1, 1979, through November 30, 1979, the FHLBB received 172 consumer complaints alleging various types of discrimination. Of these, 7 alleged discrimination based on age; 39, on geographical area; 32, on sex; 21, on marital status; 34, on race or national origin; and 39, on miscellaneous bases.

Office of the Comptroller of the Currency. The OCC has reported a reorganization to oversee more effectively the agency's consumer compliance functions.

Between July 1, 1978, and June 30, 1979, 1,779 national banks were examined for compliance with the ECOA and other laws. A total of 14,911 violations of Regulation B was discovered. The most frequently reported violations include those governing the content of adverse action notices, the collection of monitoring information, requests for information about marital status, and signatures of spouses.

Between July 1, 1978, and June 30, 1979, the OCC received 1,084 consumer complaints involving the ECOA. The OCC has reported that about one-third alleged a bank's failure to give adequate notice of the reasons for credit denial, while about two-thirds were related to bank credit cards.

Small Business Administration. The SBA is responsible for assuring that the administration and its recipients comply with requirements of the act and of Regulation B. During the 1979 fiscal year, 21,481 recipients were monitored for compliance with the act.

The SBA has reported that most creditors appear to be in compliance. Routine reviews of a few temporary disaster offices indicated that some temporary employees may have violated the age provisions of Regulation B. All loan applications are being reviewed, and relevant applicants are being contacted.

In 1979 the SBA received 20 consumer complaints alleging that discrimination had played a part in credit denial.

Securities and Exchange Commission. The SEC is responsible for examining broker-dealers registered with the SEC. When violations of consumer laws are found, voluntary compliance is sought; follow-up examinations are used to ensure such compliance. In case of continuing violations, the SEC investigates and may bring an injunction against a noncomplying broker-dealer. The SEC also enforces the act through investigation of consumer compliants.

On 1979 no violations of the ECOA were reported; one consumer complaint related to the act was received and resolved.

Civil Aeronautics Board. The CAB is responsible for ensuring compliance by air carriers with the act and with Regulation B. It is authorized to seek a cease-and-desist order against any creditor under its jurisdiction that violates the act. In cases of serious and continued noncompliance, it may also seek an injunction. In addition, the Airline Deregulation Act of 1978 empowers the CAB to assess civil penalties of up to $1,000 for each violation of its regulations.

According to the CAB, a satisfactory level of compliance exists among U.S. and foreign airlines. The CAB has reported receiving approximately 150 complaints involving the ECOA and Regulation B in 1979. These have been processed informally. The CAB instituted an investigation into one airline's consumer credit practices but found no violations.

Interstate Commerce Commission. The ICC enforces the ECOA for regulated common carriers. In its view, common carriers are forbidden to discriminate in the granting of credit by the Interstate Commerce Act and by several ICC credit regulations. The ICC has reported that no formal action has been taken and that no complaints have been received under the ECOA.

Farm Credit Administration. Administrative enforcement of Regulation B and the ECOA is accomplished by the FCA through its examination of Federal Land Banks, Federal Land Bank Associations, Federal Intermediate Credit Banks, and Production Credit Associations.

The FCA reports few instances of noncompliance and no significant problems in administering its responsibilities under the act. In 1979 the FCA received eleven complaints alleging illegal discrimination in credit. All except two have been withdrawn or resolved to the satisfaction of the complainants. Of the complaints received in 1979, two alleged discrimination based on race; one, on age and religion; one, on national origin; five, on sex or marital status; one, on marital status; and two, on an unspecified basis.

U.S. Department of Agriculture. The ECOA gives the USDA enforcement authority over activities subject to the Packers and Stockyards Act of 1921. The USDA reports no significant problems associated with the limited program under this act.

The USDA also administers a large number of credit programs through the Farmers Home Administration. Although enforcement authority for those credit programs rests with the FTC, the USDA's Office of Equal Opportunity processes complaints and, along with the staff of the Farmers Home Administration, conducts compliance review of the credit programs.

Consumer Advisory Council

Established in 1976 to advise the Board on consumer-related matters, the Consumer Advisory Council includes consumer, creditor, and academic representatives. At its three meetings in 1979, the council discussed how the antidiscrimination rules of Regulation B should be applied to certain practices of creditors who use credit-scoring systems. The practices considered included (1) assigning a score to the number of jobs the applicant has or the number of sources of income; (2) not assigning a score to the amount of the applicant's income from part-time employment, a pension, or alimony; (3) giving judgmental reasons for adverse action on a credit application rather than reasons arising from the creditor's scoring system; and (4) selecting reasons for adverse action from among the 20 reasons in a model statement included in Regulation B, even though the creditor uses a credit-scoring system with attributes that are not reflected in the model statement.

With respect to the first practice, the council recommended by a vote of 13–3 that the Board not prohibit the practice as such, but allow the agencies charged with enforcement of Regulation B to determine on a case-by-case basis whether scoring the number of jobs or sources of income of an applicant has the effect of discriminating on a prohibited basis. As to the third practice, the council voted 11–0 to recommend that creditors using a credit-scoring system be allowed to give rejected applicants either judgmental reasons or reasons based on the arithmetic of the credit-scoring system. The council discussed the other practices but reached no consensus.

Uniform Enforcement Guidelines

The five federal agencies that are represented on the Federal Financial Institutions Examination Council—the Board of Governors, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the National Credit Union Administration, and the Office of the Comptroller of the Currency—have jointly proposed uniform guidelines for the enforcement of the ECOA, its implementing Regulation B, and of the Fair Housing Act. The guidelines were field tested by several of these agencies in 1979. At the end of the year, the results were being compiled and reviewed for further consideration by the council in early 1980.

Rulemaking Activities

Under the Equal Credit Opportunity Act, the Board of Governors has responsibility for writing, amending, and interpreting Regulation B. Legislative recommendations from other agencies to amend the act are also included in this section.

Amendments and Interpretations

In 1979 the Board of Governors issued one amendment, one official Board interpretation, and two official staff interpretations of Regulation B. It also requested comment on how the regulation should apply to certain credit-scoring practices.

Clarification of the definition of creditor. On April 23, 1979, the Board amended Regulation B to make it clear that, for the purposes of the rules prohibiting discrimination, the definition of creditor includes not only those who grant credit but also those who regularly refer customers to creditors. Examples are automobile dealerships, home improvement contractors, and real estate brokers who regularly direct customers to creditors. To ensure that such parties are not overburdened by regulatory requirements, they are not subjected to the mechanical requirements of Regulation B governing applications, adverse action, and credit reporting, for example.

Determination on a New Jersey statute on credit applications. On September 26, 1979, the Board issued an interpretation determining that a New Jersey statute that prohibits inquiries about marital status in connection with a credit application is not inconsistent with the act and with Regulation B. However, when commenters raised questions about the effect of the New Jersey law, the interpretation was suspended on January 11, 1980, pending a ruling on the New Jersey statute from the State Attorney General's Office.

Determination on NCUA's model loan application forms. On June 8, 1979, the Board issued an official staff interpretation stating that the NCUA's model credit application form is in compliance with the requirements of Regulation B. The interpretation, which became effective on July 30, 1979, is intended to ease the regulatory burden on credit unions, most of which are small institutions lacking a large staff and access to adequate legal counsel.

Determination on practices of credit-card issuers. On July 1, 1979, the Board issued an official staff interpretation, effective August 30, 1979, providing that the issuer of a credit card may condition the acceptance of authorized credit-card users upon the users becoming coobligors and, thus, joint applicants. Such a policy, if applied in a nondiscriminatory fashion, would not violate Regulation B.

Proposed rulemaking: Regulation B and credit-scoring practices. On April 23, 1979, the Board solicited comments on how the rules of Regulation B should apply to the following credit-scoring practices: (1) scoring number of jobs or number of sources of income; (2) not scoring the amount of an applicant's income from part-time employment, a pension, or alimony; and (3) selecting and disclosing the reasons for adverse action. The closing date for comments was June 20, 1979, but because of the number of requests for an extension, it was later changed to August 20, 1979. On July 24, 1979, the Board issued, as an aid to discussion, a staff paper on the issues involved in the application of antidiscrimination rules to credit scoring.

Legislative Recommendations

The USDA has made two recommendations for changes to the ECOA. First, it recommends again that handicapped persons be made a protected class under the act, by adding handicap to the bases of prohibited discrimination. Second, it recommends that the act be amended to place enforcement authority for USDA credit programs in the USDA instead of in the FTC.

Education

In 1979 the Federal Reserve System offered a variety of materials and activities designed to educate consumers and creditors about their rights and responsibilities under the ECOA and Regulation B. More than three million copies of *The Consumer Handbook to Credit Protection Laws*, probably the Board's most popular publication for consumers, have been printed. It has been widely disseminated by the federal Consumer Information Center, by credit bureaus, and by other bank regulatory agencies. *The Consumer Handbook* summarizes the main provisions of seven major laws on consumer credit protection: Equal Credit Opportunity, Truth in Lending, Consumer Leasing, Real Estate Settlement Procedures, Home Mortgage Disclosure, Fair Credit Reporting, and Fair Credit Billing. It also contains a glossary of technical terms used in credit transactions and in laws and regulations on credit protection.

The Federal Reserve has produced and distributed more than 10 million copies of educational pamphlets on the Equal Credit Opportunity Act, including "The Equal Credit Opportunity Act and . . . Women," ". . . Age," ". . . Doctors, Lawyers and Small Retailers," ". . . Credit Rights in Housing," and "How the New Equal Credit Opportunity Act Affects You." These pamphlets are distributed free, in response to inquiries from consumers and during presentations, to consumers and creditors by the Federal Reserve staff.

In 1979 the Federal Reserve released a color film, "To Your Credit." Designed for school and television use, the film illustrates the consumer credit protection afforded by Regulations B and Z. So far, in showings by all the Federal Reserve Banks to consumer and student groups, the film has had an audience of about 1.5 million.

Many of the other federal enforcement agencies, including the FDIC, FHLBB, FTC, NCUA, and the OCC, also provide speakers for groups interested in consumer protection and civil rights laws. The SBA offers seminars for women in business along with materials regarding the act. Most of the agencies distribute consumer education pamphlets on the act in response to consumer inquiries.

The staff of the OCC has served as faculty at professional schools and schools sponsored by state banking associations. The OCC has also assisted trade groups in the publication of materials to assist bank officers in complying with Regulation B and with other consumer and civil rights laws. In 1979 the OCC developed a computerized mailing list of consumer, civil rights, and community groups, particularly those representing low-income individuals.

The FTC has reported the development and successful promotion of a public service announcement for radio and television designed to educate women about their rights under the act to a separate credit history. It also offers written material to supplement the announcement.

The FDIC educates bankers through examinations and bankers' seminars, gives advice to insured nonmember banks upon request through its compliance examiners, and provides information to consumers in response to complaints and inquiries.

FEDERAL TRADE COMMISSION ACT

This fifth annual report describes the activities of the Board of Governors of the Federal Reserve System in fulfilling its responsibilities under section 18(f) of the Federal Trade Commission Act. The Board's responsibilities under the act are (1) to identify unfair or deceptive banking practices and to adopt regulations that prohibit them; (2) to receive complaints against state member banks and take appropriate action to remedy them; and (3) within 60 days of the effective date of certain rules prescribed by the Federal Trade Commission, to promulgate substantially similar regulations that are applicable to banks, unless certain exceptions apply.

Identification of Unfair or Deceptive Practices

Under its responsibility to identify and regulate unfair or deceptive acts or practices of banks, the Board took a number of actions in 1979. It collected up-to-date information about problematic banking practices from the Federal Reserve Banks; consulted with the Consumer Advisory

Council about those practices and about actions the Board should take; exchanged information on consumer complaints with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency as in previous years; and added an "early warning" feature to its computerized system for consumer complaints that signals the receipt of a significant number of complaints (15 or more per quarter, or 50 annually) about any practice that is not subject to existing regulation.

Consumer complaints on such practices are currently divided into eight major categories and more than sixty subcategories for computer storage and retrieval. The major categories are (1) deposit functions, which include complaints related to discrepancies in accounts, disputed deposits, advertising, NSF (not sufficient funds) charges and procedures, and service charges and the like; (2) electronic fund transfer payments; (3) foreign operations; (4) loan functions; (5) safety deposit box and safekeeping functions; (6) trust services; (7) general, which includes complaints relating to information available to stockholders, incompetent or rude personnel, and employee hiring, benefits, and firing, and so on; and (8) miscellaneous or uncatalogued complaints.

The Board regularly asks the Federal Reserve Banks to summarize any findings of examiners that might identify unfair or deceptive banking practices. In 1979 a significant number of the Banks responded that the following practices should be investigated: changes in rules applying to savings and demand accounts without notification to the depositor, failure to disclose or explain the terms of an account when it is opened; false advertisement of "free" or "interest free" checking; failure to investigate consumer complaints without intervention by the Board or a Federal Reserve Bank; and failure to disclose delayed availability of funds. Delayed availability refers to the practice of placing a hold on a check deposit to give time for the check to clear at the bank on which it is drawn or to have payment refused.

In 1979 the Board's staff sought to determine the nature and scope of consumer problems with respect to delayed funds availability and to identify actions by the Board that might resolve them. The study explored various incentives for banks to accelerate return notifications, including regulatory action, profits, customer service, and others. It also examined ways to improve the return-item segments of the check collection system.

In February 1979 the Consumer Advisory Council discussed banking practices that were troublesome, from misleading use of the term "free checking" to failure to make adequate disclosure of account terms to customers. Many council members, both consumer and creditor representatives, were opposed to new regulations; they favored guidelines or policy statements. The Board's view is that the costs and burdens of a complex regulatory scheme, which will be borne ultimately by depositors and borrowers, must be weighed carefully against the perceived benefits to the public.

Consumer Complaints

In 1979 the Board's staff continued their efforts to meet the objectives of the System's complaint-handling system: to protect the statutory rights of bank customers, to identify problematic bank practices to determine the need for additional protective or regulatory measures, to help monitor compliance and enforcement programs, and to provide bank customers with a way to participate in the enforcement policies and programs for consumer protection and civil rights.

In responding to complaints and inquiries from consumers, the staff took actions ranging from the provision to individual consumers of specific explanations and printed materials to investigation and resolution of complaints against state member banks. Complaints that involved creditors or businesses not under the Board's supervision were forwarded to the appropriate enforcement agency.

The Board also strengthened the System's procedures for handling consumer complaints. In its announcement of an expanded compliance program in February 1979, the Board underscored its commitment to thorough investigation of complaints of unlawful discrimination against state member banks. In such cases the Board requires an on-site investigation unless the facts suggest otherwise. Also, in the summer of 1979, the Division of Consumer and Community Affairs announced a new procedure for assessing Reserve Bank practices in handling consumer complaints. Effective January 1980, each Reserve Bank must submit to the Board all correspondence connected with oral and written complaints resolved during two separate one-month periods. The procedures and actions of the Reserve Banks will then be reviewed for timeliness, thoroughness, responsiveness, and adherence to System procedures. In addition, the Board will send follow-up questionnaires on consumer satisfaction to each consumer whose complaint is reviewed. Since 1977 the Board has been sending questionnaires to consumers whose complaints were resolved by the Board or referred to the Federal Reserve Banks; 1980 will be the first year that this method is used to evaluate the responses of the Reserve Banks to consumer complaints that they receive directly.

In 1979 consumers returned 67 percent of these questionnaires, a dramatic increase over previous years. (The return rate was 45 percent in 1978 and 37 percent in 1977.) The data collected from the questionnaires show an encouragingly high percentage of favorable responses to the Federal Reserve's practices for handling complaints: 72 percent of the respondents reported that the explanation they received was clear and understandable; 76 percent, that they were satisfied with the promptness with which the complaint was handled; 96 percent, that they felt they were treated courteously by Federal Reserve staff; and 80 percent, that they would contact the Federal Reserve again if they had another problem with a bank. Fifty-two percent of the respondents found the resolution of their complaint acceptable. This proportion of satisfaction with the *outcome* is relatively lower than the proportions of satisfaction with various aspects of the *procedure* reported above because a number of complaints involve practices that, though objectionable to consumers, do not violate state or federal law and therefore are beyond immediate remedy by the Federal Reserve.

Two consumer-oriented pamphlets, *The Consumer Handbook to Consumer Credit Protection Laws* and *How to File a Consumer Credit Complaint*, have been published by the Board and widely distributed by the Federal Reserve System and other federal agencies. The latter booklet contains a complaint form that was used by about 20 percent of the complainants who wrote to the Board in 1979. Both publications reaffirm the Board's commitment to help consumers resolve their problems with banks, especially state member banks. In 1979 the Board's staff responded to 345 written inquiries concerning consumer credit laws and banking policies and practices. The responses were tailored to the needs of the individual consumer; in addition, the consumer was often sent pertinent educational pamphlets and brochures.

In 1979 the Federal Reserve System received 4,067 complaints: 2,309 by letter, 1,665 by telephone, and 93 in person. The total number received represents an increase of about 26 percent over that received in 1978. The Board views this increase as a result of an ongoing program to help bank customers learn about their rights and how to exercise them.

About 49 percent of the complaints received by the System refer to bank practices that are not regulated by the Board and to practices of businesses and nonbank financial institutions that are outside the Board's

1. Consumer Complaints Received by the Federal Reserve System, by Subject, 1979

Subject	Number
Regulation B (Equal Credit Opportunity)	926
Regulation C (Home Mortgage Disclosure)	13
Regulation E (Electronic Fund Transfer)	28
Regulation Q (Interest on Deposits)	192
Regulation T (Credit by Brokers and Dealers)	2
Regulation Z (Truth in Lending)	695
Regulation BB (Community Reinvestment)	5
Fair Credit Reporting	152
Fair Debt Collection Practices	45
Fair Housing Act	4
Transfer agents	7
Holder in due course	11
Municipal securities dealer regulation	1
Other [1]	1,986
TOTAL	4,067

[1] "Other" refers primarily to complaints that did not fall under identifiable consumer credit legislation administered by the Board of Governors, and includes complaints against business entities as well as financial institutions.

purview. This category of complaints is designated as "other" in the statistical review of consumer complaints (see table 1). The three most common types of "other" complaints received in 1979 involved discrepancies in account balances, disagreements over the amount of a deposit made to an account, and tactics used by creditors or businesses in collecting debts.

Table 2 summarizes the nature and resolution of complaints against state member banks that were received in 1979. The complaints are compiled according to bank functions, such as loans, deposits, electronic fund transfers, trusts, and other. About 58 percent of the complaints against state member banks concerned bank loan functions. In this category about 36 percent alleged illegal discrimination, and 22 percent involved credit-cost disclosures and other general loan functions. Approximately 23 percent involved interest on deposits and general practices concerning deposit accounts.

Rulewriting and the Federal Trade Commission

On September 21, 1979, the Federal Trade Commission approved in substance an amendment to the trade regulation rule concerning preservation of consumers' claims and defenses. The proposed amendment, published for comment on November 15, 1979 (*Federal Register*, volume 44, page 65771), would require certain creditors to insert in certain consumer loan contracts a clause that preserves the consumer's right to assert claims and defenses against any holder of the credit contract. The requirement applies to all contracts involving awareness of the creditor that the loan proceeds will be spent by a consumer to purchase goods or services from a seller who is "affiliated" with the creditor.

2. Complaints Received against State Member Banks, by Type of Complaint and Type of Resolution, 1979 [1]

Type of resolution	Total complaints	Type of complaint					
		Loan functions		Deposit functions	Electronic fund transfers	Trust services	Other
		Discrimination	Other				
Total complaints	4,067	1,210	930	1,021	37	65	804
Total concerning state member banks	1,108	240	403	252	19	30	164
Insufficient information	57	14	10	11	2	0	20
Information furnished	232	53	97	43	2	8	29
Bank legally correct							
No accommodation	340	65	144	77	3	11	40
Accommodation made	100	20	38	23	3	1	15
Clerical error, corrected	129	32	38	37	1	1	20
Factual dispute	32	3	5	15	2	1	6
Bank violation, resolved	19	8	0	7	0	1	3
Possible bank violation, unresolved	12	4	3	2	2	0	1
Customer error	16	5	3	4	1	1	2
Pending							
December 31, 1979	171	36	65	33	3	6	28
January 31, 1980	123	31	30	30	1	6	25
Other	2,959	970	527	769	18	35	640

[1] The terms used in this table are defined as follows:

Insufficient information. The staff has been unable, after follow-up correspondence with the consumer, to obtain sufficient information to process the complaint.

Information furnished. When it is apparent that the complainant does not understand the law and that there has been no violation on the part of the bank, the Federal Reserve System explains the law in question and provides the complainant with other pertinent information.

Bank legally correct, accommodation made. In these cases the bank appears to be legally correct, but chooses to make an accommodation to avoid losing the customer.

Clerical error, corrected. In these cases the bank has been found to have made a clerical error and has made accommodation voluntarily or as ordered by the Federal Reserve System.

Factual dispute. These cases involve factual disputes not resolvable by the Federal Reserve System and contractual disputes that can be resolved only by the courts. Consumers who wish to pursue the matter are advised to seek legal counsel, to seek legal aid, or to use small claims courts.

Bank violation, resolved. In these cases a bank appears to have violated a law or regulation and has taken corrective measures voluntarily or as ordered by the Federal Reserve System.

Possible bank violation, unresolved. When a bank appears to have violated a law or regulation, customers are advised to seek civil remedy through the courts. Some cases that appear to involve criminal irregularity are referred to the appropriate law enforcement agency.

Customer error. This category covers cases in which investigation reveals that the customer made the error.

Pending. These are newly acquired cases or cases that are in process and have not been resolved.

Following the comment period, ending January 14, 1980, the FTC was to promulgate the amendment and set an effective date. Section 18(f) of the Federal Trade Commission Act requires the Board, with some exceptions, to issue a substantially similar rule applicable to banks within 60 days of the effective date of the FTC rule.

In anticipation of the FTC's final adoption of the rule, the Board, along with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, is collecting information about relevant contracts currently in use, and the effect on banks and consumers of a rule similar to the proposed amendment of the FTC.

HOME MORTGAGE DISCLOSURE

The Board of Governors of the Federal Reserve System enforces the Home Mortgage Disclosure Act (HMDA) and its implementing Regulation C (Home Mortgage Disclosure) with respect to state member banks. The information required under the act is used to monitor the performance of those banks under the Community Reinvestment Act (CRA) and its implementing Regulation BB (Community Reinvestment), and to assess compliance with civil rights laws. The Board is also responsible for granting exemptions from the disclosure requirements of the act to any state-chartered depositary institution if the institution is subject to a state law that is substantially similar to the HMDA in its requirements and enforcement. No such exemptions were granted in 1979.

Without an extension by the Congress, the HMDA will expire on June 27, 1980. In early 1980 the Board recommended to the Senate Committee on Banking, Housing, and Urban Affairs that the reporting requirements of the act be refocused to reduce compliance costs and to distribute that cost more fairly. The Board also sought in its recommendations to preserve the act's requirements for information from financial institutions located in truly urban areas. The amended requirements, the Board said, should be incorporated in the CRA and reviewed in three years. These recommendations were made in light of a study conducted by the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board.

Specifically, the Board suggested that the Congress amend the reporting requirements of the act (1) to exempt an institution that has a residential mortgage and home improvement portfolio of $10 million or less unless it originates more than 200 home purchase loans each calendar year (the current exemption is for all institutions with assets of $10 million or less regardless of the number of loans they make); (2) to require disclosure by census tract for loans relating to homes located in counties within standard metropolitan statistical areas that have a population of more than 50,000 persons, and by county in other areas within an SMSA (the current requirement is for all loans on homes within an SMSA); and (3) to simplify the reporting categories by grouping together conventional loans on home purchases and government-insured and -guaranteed loans by eliminating the separate disclosure of loans made to nonoccupant borrowers.

COMMUNITY REINVESTMENT ACT INFORMATION STATEMENT

The text of the Community Reinvestment Act Information Statement, issued by the Board of Governors on January 3, 1980, is as follows:

> The Board of Governors of the Federal Reserve System is issuing this statement for the guidance of applicants, community groups, and other persons interested in the Community Reinvestment Act of 1977 (CRA or the act). On the basis of its experience during the first year of operation under CRA, the Board is working to simplify its procedures for protested applications, and it expects to develop a procedural guide for members of the public participating in CRA matters. The procedures are, of necessity, subject to change as more experience is acquired, and all procedures will be coordinated as far as possible with those adopted by the other federal agencies charged with supervision of financial institutions.
>
> CRA was enacted against a background of concern for unfair treatment of prospective borrowers and unwarranted geographic differences in the pattern of lending. The act requires the Board to encourage banks to meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of those banks, to assess the banks' records of meeting those credit needs, and to take their records into account in the Board's evaluation of various applications to expand the banks' activities or those of their parent holding companies.
>
> Although CRA is directed at the problem of meeting sound community credit needs, it was not intended to establish a regulatory influence on the allocation of credit. In implementing the act, the Board has acted on the belief that banks are in the best position to assess the credit needs of their own local communities and the Board believes that meetings with community groups can be an integral part of the process. The first assessment factor in the Board's CRA regulation stresses a bank's activities to ascertain the credit needs of its community, including communication with community members. More recently the Board has adopted, as a regular procedure for applications that are protested on substantive CRA grounds, a policy of encouraging meetings between applicants and protestants, one purpose of which is to facilitate communication between the parties.
>
> Several community organizations have submitted materials to the Board sug-

gesting that particular lending institutions have poor lending records because they do not return to particular neighborhoods in loans as much as they accept from those neighborhoods in deposits. The Board believes that there are many reasons why a particular neighborhood may generate more deposits than loan requests, or more requests than deposits, and that disparity in a particular local area between credit granted and deposit totals is not prima facie evidence of discrimination. The Board is more concerned with the lender sensitivity to the needs of each area.

Banks may sometimes fail to recognize the credit needs of creditworthy borrowers in the banks' communities. For example, in its investigations to date, the Board has found some evidence of disparity in banks' housing-related lending to low- and moderate-income neighborhoods compared with higher income areas. Factors affecting housing demand and considerations of safety and soundness do not appear to account fully for the extent of these disparities.

The Board expects banks to offer types of credit listed on their CRA statements throughout their communities. In assessing banks' records, the Board views favorably the record of a bank that has defined its community reasonably and that offers credit that appears to help meet credit needs in its entire community. The Board will also give favorable weight to bank leadership in concerted efforts to improve low- and moderate-income areas in their communities. However, the Board views as a serious matter disparities in lending to different areas that do not appear to be fully attributable to safety and soundness considerations or to factors beyond a bank's control. When faced with evidence of such disparities, the Board will inquire closely, both into the bank's efforts to ascertain credit needs and to make the community aware of its credit services and into any policies or practices of the bank that may discourage credit applications from, or discriminate against, parts of the bank's community.

In acting upon applications covered by CRA, the Board considers a bank's CRA record as a part of the convenience and needs aspect to be evaluated along with other relevant factors. Following its longstanding policy, the Board may in some circumstances give weight to commitments for future actions as part of its consideration of convenience and needs. Such commitments are not viewed as part of the CRA record but may be weighed with it, and they are considered an important aspect of the Board's role in encouraging improved performance. When such commitments are offered by an applicant to outweigh adverse aspects in a CRA record, the Board will consider the likelihood that they will be accomplished and in future applications and examinations will review closely an applicant's performance on previous CRA commitments.

The Board has been working to simplify and streamline its procedures for protested applications and expects to produce a guide for community organizations that are interested in CRA matters. In the meantime System staff is available to advise parties on procedural requirements. Just as the Board expects banks to communicate responsibly with all segments of their community, it expects community organizations to investigate and document their complaints and to bring those complaints to the attention of the banks involved before protesting an application. The Board further expects all parties to an application to observe the Board's procedural rules, and cautions all parties against ex parte communications—private communications to Board Members without other parties present. Direct communication on protested cases with Members of the Federal Reserve Board must be in writing and will be part of the record.

As a part of its revised procedure when a protest is considered substantive, the Board now asks that applicants and protestants meet together with Reserve Bank staff to attempt to clarify the issues between them. These meetings have been useful in helping the staff to plan the direction of its investigation and to identify areas or questions meriting special attention. In addition, when particular differences among the parties have arisen from misunderstanding of the facts or of another party's position, these meetings have helped resolve those differences.

Of five protested applications that the System has acted upon, three protests have been resolved by negotiation, and agreements reached in negotiations played a role in the Board's decision on a fourth. These are, however, several aspects of this process that merit special attention. First, the withdrawal of a protest does not alter the Board's obligation to assess the CRA record of an applicant carefully. Second, while the Board reasonably expects all parties to use these meetings to explain and clarify their positions, any decision to negotiate is entirely within the parties' discretion. Finally, even if parties agree, the Board need not approve their agreement.

In particular, the Board does not endorse agreements to allocate credit. The Board is aware that many banks have on their own initiative adopted special-purpose credit programs, or pilot programs to test new credit offerings. The Board does not wish to discourage these efforts. However, the Board will closely scrutinize any agreements to ascertain that they are not inconsistent with the safety and soundness of the bank involved, and do not establish a preference for credit extensions inconsistent with evenhanded treatment of borrowers throughout the community.

In designing procedures to accomplish the act's objectives, the Board appreciates the useful comments it has received from banking organizations and community groups, and it welcomes additional suggestions. The Board believes that the applications process can encourage communication between banks and their communities and help insure that sound credit needs are met within the capacity of depositary lending institutions.

Securities Acts Amendments of 1975

Pursuant to the Securities Acts Amendments of 1975 (Public Law 94-29), the Board of Governors of the Federal Reserve System is designated "the appropriate regulatory agency" with respect to state member banks and bank holding companies that act as municipal securities dealers or as clearing agencies. As of December 31, 1979, 49 state member banks, or separately identifiable departments or divisions of such banks, were registered as municipal securities dealers; 48 were examined in 1979.

The four registered clearing agencies that were members of the Federal Reserve System on December 31, 1979, were examined during 1979. These examinations are designed to determine whether the clearing agency conducts its activities in accordance with safe and sound banking practices and, if it does not, to evaluate the impact of the agency's overall condition and to recommend and enforce appropriate corrective action.

Legislative Recommendations

The Board of Governors has made the following recommendations for legislation to the Congress of the United States.

RESERVE REQUIREMENTS

Financial innovation, shifting competitive patterns, and high interest rates have made it progressively more costly and more difficult for banks to continue their membership in the Federal Reserve System. The non-interest-bearing reserve requirements associated with being a member have made membership an increasingly costly burden. As more banks withdraw from the System, the share of money subject to reserve requirements set by the Federal Reserve decreases; as a result the capacity of the Federal Reserve to conduct effective monetary policy is steadily weakened.

The proportion of bank deposits held by member banks has dropped from 80 percent in 1970 to 70 percent at the beginning of 1980. During the fourth quarter of 1979 and the first few weeks of 1980, 69 banks with about $7 billion in deposits have given notice of withdrawal from membership, a loss of deposits in a few months surpassing that in any previous full year.

A recent survey by the Federal Reserve Banks found that 320 banks were judged certain or probable to withdraw and another 350 were considering withdrawal. These 670 banks represent more than 10 percent of the System's membership and have in excess of $71 billion in deposits. If they do withdraw, the deposits of banks holding Federal Reserve membership will decline to 64 percent of the total deposits of the banking system.

The loss of member banks has several adverse effects on monetary control, as well as on the soundness of the banking system and on the Federal Reserve System. As the total amount of reserves held at Reserve Banks declines, the "multiplier" relationship between reserves and money increases and tends to become less stable, making possible unintended and magnified changes in the money supply when reserves are supplied by open market operations. Also, as banks leave the System, they lose ready access to the Federal Reserve discount window.

Operation of the window not only assists otherwise strong banks to weather unexpected deposit outflows but also performs as an essential safety valve for the monetary system by allowing individual institutions to adjust more smoothly and without disruptions to changing credit conditions.

To enable the Federal Reserve to maintain disciplined control of the money supply and to meet its other responsibilities for protecting the safety and soundness of the banking system, the Board recommends legislation that would apply reserve requirements to all depositary institutions on a universal and mandatory basis. The Board believes that the following principles should be embodied in any legislative solution and that prompt action is necessary to assure the Federal Reserve of adequate tools to manage the nation's monetary affairs:

- Reserves should be applied to all transactions accounts at all depositary institutions. Some relatively low exemption level, or a system of graduated requirements for the smallest institutions, can be accommodated within this principle.
- If and when reserve requirements are imposed on time deposits, such requirements should be confined to short-term nonpersonal accounts and should be at relatively low levels.
- To establish comparable competitive conditions, reserve requirements should be equal for all depositary institutions that offer comparable accounts.
- Authority should be provided to ensure that the reserve base is of adequate size for the efficient and effective conduct of monetary policy.
- Access to Federal Reserve services should be open to all depositary institutions with transactions accounts, and the Reserve Banks should, in principle, aim to recover the full cost of their services from pricing—provided that all institutions have a comparable reserve burden.
- Consistent with the dual banking system, institutions should remain free to choose a state or federal charter, and membership in the Federal Reserve System, with its implications for certain supervisory matters and for the election of Federal Reserve Bank directors, should remain voluntary.

FINANCIAL TRANSACTIONS WITH AFFILIATES

During 1976 and 1977 the Board conducted a major review of section 23A of the Federal Reserve Act. Section 23A is designed to protect member banks from abuse by restricting non-arm's-length financial transactions between these banks and affiliated companies. The Board's review of this statute was prompted in part by the discovery that several relatively large banks had been adversely affected by transactions with their affiliates.

One of the Board's major conclusions is that bank transactions with affiliates within the statutory limits have not caused substantial instability in the banking system. At the same time, the Board finds some flaws in the present statute: (1) it is inordinately complex; (2) it contains some potentially troublesome loopholes; and (3) it appears to be unduly restrictive in several ways.

The Board has recommended amendments to section 23A to correct these flaws. Principal among its recommendations are those (1) to allow a holding company greater freedom to transfer funds among its sister subsidiary banks but prohibit a bank from purchasing low-quality assets from a sister susidiary bank; (2) to broaden the definition of "affiliate" to include real estate investment trusts and other financial organizations that are sponsored and advised by a banking organization; and (3) to expand the types of collateral permitted on bank loans and extensions of credit to affiliates while requiring that these new types of collateral have a high value relative to the loan.

LENDING AUTHORITY OF FEDERAL RESERVE BANKS

The Board again urges enactment of legislation to permit member banks to borrow from their Reserve Banks on the security of any sound assets without paying a penalty rate of interest whenever paper ineligible for discount by Federal Reserve Banks is presented as collateral.

Under section 13 of the Federal Reserve Act, Federal Reserve Banks may extend credit at the basic discount rate to member banks on promissory notes that are secured by obligations eligible either for purchase or for discount by the Reserve Banks.

Under section 10(b) the Reserve Banks are authorized to extend to member banks credit on promissory notes secured to the satisfaction of the Federal Banks. However, section 10(b) also provides that such credit extensions "shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect" at the Reserve Bank making the loan, except when the loan is secured by mortgages on one- to four-family homes. The result is that many sound member bank loans cannot qualify as security for Federal Reserve advances except at this penalty rate of interest, even though their quality may be equal to that of currently "eligible" paper. Elimination of the penalty rate would mean that obligations such as commercial paper with maturities in excess of 90 days could be used as collateral for advances at the basic discount rate.

EXPANSION OF CLASS C DIRECTORS

The Board has submitted to the Congress draft legislation to increase the number of Class C directors at each Federal Reserve Bank from three to five. The proposal aims to diversify further the backgrounds and interests represented on the Reserve Banks' boards of directors as a way of accomplishing one of the objectives of the Federal Reserve Reform Act of 1977. That act provides for the representation of the interests of consumers, labor, and services, in addition to agriculture, commerce, and industry, on the boards of the Reserve Banks.

TERM OF CHAIRMAN OF THE BOARD OF GOVERNORS

Proposals to establish a fixed term for the Chairman of the Board of Governors have been under consideration in various forms for some years. The Board has recommended legislation making the four-year term of the Chairman begin one year following the inauguration of the newly elected President. This arrangement would eliminate the possibility, which exists under present law, that the appointment of the Chairman might by chance come to occur regularly in a presidential election year. It would also afford continuity in monetary policy when a new President takes office, and would contribute to the coordination of monetary, fiscal, and other economic policymaking, without undermining the independence of the Federal Reserve.

The bill also would authorize the Vice Chairman to act as Chairman in the event of (1) the temporary absence and unavailability or incapacity of the Chairman; or (2) the death, resignation, or permanent incapacity of the Chairman, pending appointment and confirmation of a successor. In addition, it would clarify that the Chairman and Vice Chairman continue to serve in those capacities after expiration of their terms until a successor is designated and confirmed.

AUTHORITY FOR BANK HOLDING COMPANIES TO ACQUIRE BANKS ACROSS STATE LINES IN EMERGENCY AND FAILING-BANK SITUATIONS

The Board again recommends that the Congress give the Federal Reserve authority in certain emergency and failing-bank situations to approve the acquisition by an out-of-state bank holding company of a large bank that is in severe financial difficulty. The purpose of the legislation is to avoid an adverse potential impact when the failing bank is one of the largest in the state and the public interest would be served best by such an acquisition. Existing law permits a foreign bank but not an out-of-state U.S. banking institution, to acquire the failing bank.

The authority would be limited to cases involving a bank that had assets in excess of $500 million or a bank that was one of the three largest in the state. The authority would be used only in cases in which few or no purchasers could be found within the state and in which the size or other special characteristics of the problem bank and the probability of widespread financial effects of its failure warrant an exception to the general restrictions on out-of-state bank acquisitions by a bank holding company.

SIMPLIFICATION OF TRUTH IN LENDING ACT

As a result of widespread concern about the complexity of Truth in Lending, the Board has made recommendations to the Congress to improve and simplify the statute. Creditors acting in good faith have experienced difficulty in complying with Truth in Lending. Likewise, the complexity of the disclosures appears to have diminished their usefulness to consumers.

The Board's proposal has several major elements. It is designed to inform consumers better and to emphasize the cost disclosures most needed in shopping for credit: the annual percentage rate, the finance charge, and the payments schedule. The 1977 Consumer Credit Survey, which was initiated by the Board in cooperation with the Comptroller of the Currency and the Federal Deposit Insurance Corporation and conducted by the University of Michigan's Survey Research Center, shows that these disclosures are far more important to consumers than those of other terms. The proposal reduces the detail of the disclosures—for example, eliminating the itemization of the components of the finance charge and the amount financed. Significant information that is less important for shopping purposes, such as whether the obligation is secured, would be summarized, but the details would be relegated to the contract.

Under the proposal the disclosures required by federal law would be segregated from other matters in the contract and from other disclosures required by state law so that the Truth in Lending disclosures would not be lost among other provisions. In addition, the credit-cost terminology would be explained in plain English; and the Board would develop and publish model forms and clauses that, if properly completed, would protect creditors from civil liability under the act. The proposal also contains extensive technical clarifications.

UNIFORM RULES FOR CREDIT AND EFT TRANSACTIONS

When the Ninety-Fifth Congress enacted the Electronic Fund Transfer Act to regulate the consumer aspects of electronic fund transfers, the Board was assigned the responsibility of writing regulations to implement the act. In doing so, the Board has become concerned that consumers will encounter unnecessary difficulty in understanding the rules provided by the new act, and will confuse them with the rules under the Truth in Lending and Fair Credit Billing Acts.

Confusion may arise particularly when a single card will perform multiple functions and be subject at one time to the rules of the Truth in Lending and Fair Credit Billing Acts, as in the case of a credit purchase, and at another time to the different rules of the Electronic Fund Transfer Act, as in the case of a cash withdrawal. Even apart from the multiple-function card, the Board believes that consumers should not have to learn one set of rules for a credit card and another for an EFT card. In order to minimize confusion, the Board recommends that the act be amended to provide, so far as practicable, a single set of rules governing credit and EFT transactions.

Litigation

During 1979 the Board of Governors was named in 22 lawsuits, the same number as in 1978. Of the actions filed in 1979, 16 raise questions under the Bank Holding Company Act, compared with 17 in 1978. As of December 31, 1979, 27 cases were pending, 14 of which raise questions under the Bank Holding Company Act. A brief description of each case that was pending at the end of the year or that was disposed of in 1979 follows.

BANK HOLDING COMPANIES—ANTITRUST ACTION

In 1979 the U.S. Department of Justice filed no challenges under the antitrust laws of the United States to acquisitions by registered bank holding companies or bank mergers that had been previously approved by the Board, and no such cases are pending from previous years.

BANK HOLDING COMPANIES—REVIEW OF BOARD ACTIONS

In *Bankers Trust New York Corporation* v. *Board of Governors*, No. 73–1805 (2d Cir., filed May 25, 1973), petitioner requested the court to review and set aside a Board order (*Federal Reserve Bulletin*, volume 59, May 1973, page 364) denying petitioner's application to engage in investment advisory activities through a newly formed subsidiary corporation in Palm Beach, Florida. In October 1973, the court granted petitioner's request for a delay in the proceedings pending the outcome on appeal, of a suit in U.S. District Court for the Northern District of Florida challenging the constitutionality of a Florida statute prohibiting out-of-state banking organizations from performing investment advisory services in Florida, upon which the Board had based its order. On April 14, 1975, the U.S. Supreme Court vacated the district court judgment in that suit, finding the suit inappropriate for a three-judge court, and sent the case back to the district court (421 U.S. 901). The district court, on December 15, 1978, ruled that the Florida statute violated the commerce clause of the U.S. Constitution. On June 12, 1979, the U.S. Court of Appeals for the Second Circuit, pursuant to stipulation by the parties, ordered petitioner's action dismissed without prejudice.

In *Investment Company Institute* v. *Board of Governors*, No. 77–1862

(D.C. Cir., filed on September 23, 1977), petitioner sought judicial review of a Board order, dated August 31, 1977 (*Federal Reserve Bulletin*, volume 63, September 1977, page 856), denying its petition for reconsideration and rescission of a portion of the Board's January 1972 amendment to Regulation Y (*Federal Register*, volume 37, 1972, page 1463). Petitioner challenged the validity, under the Glass-Steagall Act, of the Board's amendment, which permits bank holding companies to act as investment adviser to or sponsor of an investment company that is registered under the Investment Company Act of 1940. On March 30, 1979, the court vacated the Board's amendment. The Board petitioned the court for rehearing and on July 13, 1979, the court amended its order to clarify that it did not reach the question of whether a bank holding company could provide advice alone to an investment company (606 F.2d 1004). The Board filed a petition for certiorari with the U.S. Supreme Court on December 13, 1979.

In *Florida Association of Insurance Agents, Inc.* v. *Board of Governors*, Nos. 75–3151 to 3153 (5th Cir., filed August 12, 1975), petitioner sought judicial review of three Board orders (*Federal Register*, volume 40, 1975, pages 30869, 30872, 30876) approving the applications of four bank holding companies to engage in certain insurance agency activities in Florida to the extent permitted by state law. These cases were consolidated in the Fifth Circuit with the claims brought in *National Association of Insurance Agents, Inc.* v. *Board of Governors*, Nos. 75–3342, 75–3343, and 75–3358 (D.C. Cir.), in which the petitioner challenged the same Board orders. On March 19, 1979, the court remanded the cases to the Board for further consideration of the application (591 F.2d 334).

In *BankAmerica Corporation* v. *Board of Governors*, No. C77–1005 SW (N.D. Cal., filed May 13, 1977), petitioner sought a declaratory judgment that its proposal to expand geographically and to continue data processing activities through its subsidiary, the Decimus Corporation, within a 500-mile radius of Piscataway, New Jersey, had been approved because the Board failed to act on the proposal within the 91-day period required for Board action under 12 U.S.C. 1843(c). On July 29, 1977, the district court ruled in favor of BankAmerica Corporation. The Board appealed this decision (No. 77–3629, 9th Cir.), and on May 14, 1979, the Court of Appeals for the Ninth Circuit reversed the district court's ruling. In a related case, *BankAmerica Corporation* v. *Board of Governors*, No. 77–2173 (9th Cir., filed May 25, 1977), BankAmerica sought judicial review of a Board order, dated May 20, 1977 (*Federal Register*, volume 42, 1977, page 27293), providing for a hearing with respect to its application to engage in data processing activities through the Decimus Corporation. Both actions were consolidated in the Court of Appeals for the Ninth Circuit. On May 14, 1979, the court dismissed the petition for review. On June 8, 1979, the court denied BankAmerica's petition for a rehearing (596 F.2d 1368).

In *Memphis Trust Company* v. *Board of Governors*, No. C76–64 (W.D. Tenn., filed February 19, 1976), plaintiff requested that the Board's order of April 10, 1975 (*Federal Reserve Bulletin*, volume 61, May 1975, page 327), denying plaintiff's application to acquire Home Owners Savings and Loan Association, Collierville, Tennessee, be set aside. In a decision on June 4, 1976, the court held that plaintiff's application had been approved by operation of law because the Board had not acted on the application within 91 days after the submission of the complete record to the Board. The district court further held that it had jurisdiction over the plaintiff's suit.

The Board appealed the decision to the U.S. Court of Appeals for the Sixth Circuit (No. 76–2183). The court held, on September 22, 1978, that the district court lacked subject matter jurisdiction, reversed the district court, and remanded the case for dismissal without prejudice to petitioner's right to request the Board to reconsider its order of April 10, 1975 (584 F. 2d 921). Memphis Trust then petitioned the Board to reconsider that order, and was denied reconsideration by the Board's order of April 25, 1979. Memphis Trust appealed this denial (6th Cir., No. 79-3350), claiming that its original application was approved by operation of law and alleging that the Board had not acted on the application within 91 days after the submission of the complete record to the Board. The case is pending.

In *Central Bank* v. *Board of Governors*, No. 77–1937 (D.C. Cir., filed October 17, 1977), petitioner asked the court to review a September 13, 1977, determination by the Board denying petitioner's request for a determination that the individual organizers of the Tri-City National Bank of West Allis, West Allis, Wisconsin, constitute a company under the Bank Holding Company Act. The court remanded the case to the Board for further proceedings on November 21, 1978. On February 1, 1979, the court granted the Board's petition for rehearing and affirmed the Board's order (593 F.2d 1370).

In *Vickars-Henry Corporation* v. *Board of Governors*, No. 77–3890 (9th Cir., filed December 13, 1977), petitioner challenged a Board letter determination, dated November 15, 1977, that petitioner is not a bank holding company for purposes of the Bank Holding Company Tax Act of 1976. The case is awaiting oral argument.

In *Michigan National Corporation* v. *Board of Governors*, No. 78–3057

(6th Cir., filed February 1, 1978), petitioner sought judicial review of the Board's order, dated January 31, 1978 (*Federal Reserve Bulletin*, volume 64, February 1978, page 127), approving petitioner's application to acquire Michigan National Bank–Sterling, Sterling Heights, Michigan, a proposed new bank, on the condition that petitioner discontinue the "accommodation transaction services" offered at its subsidiary banks. On April 21, 1978, the court granted petitioner's motion to consolidate the case with two others that petitioner has appealed from federal district court. In June 1979, the court dismissed the case with prejudice by stipulation of the parties.

In *Security Bancorp* v. *Board of Governors*, Nos. 78–1581 and 78–2031 (9th Cir., filed March 17 and May 12, 1978), petitioners challenged the Board's action in denying Security Bancorp's application to become a bank holding company through the acquisition of Security National Bank, Walnut Creek, California (*Federal Reserve Bulletin*, volume 64, May 1978, page 405). The cases are awaiting oral argument.

In *Citicorp* v. *Board of Governors*, No. 78–4039 (2d Cir., filed March 23, 1978), petitioner sought judicial review of a Board order, dated March 13, 1978 (*Federal Reserve Bulletin*, volume 64, April 1978, page 321), denying petitioner's application to retain Advance Mortgage Corporation, Southfield, Michigan. On January 2, 1978, the court upheld the Board's order, holding that the Board's decision was supported by substantial evidence and that the Board had met the 91-day statutory requirement for processing the application (589 F.2d 1182). Citicorp applied for and was denied certiorari by the U.S. Supreme Court on April 2, 1979 (98 S. Ct. 2860).

In *NCNB Corporation* v. *Board of Governors*, No. 78–1363 (4th Cir., filed June 8, 1978), petitioner sought review of the Board's order, dated May 10, 1978 (*Federal Reserve Bulletin*, volume 64, June 1978, page 506), refusing to publish for comment a proposal to engage in the underwriting of property and casualty insurance, adjusting insurance claims, and appraising and valuing property in connection with those activities. Petitioner claims that the Board failed to act on the application within the 91-day period required for Board action by 12 U.S.C. 1842(b) and that the Board acted arbitrarily and capriciously in declining to publish for comment petitioner's proposal. On June 15, 1979, the court affirmed the Board's order (599 F.2d 609).

In *Mid-Nebraska Bancshares, Inc.* v. *Board of Governors*, No. 78-1658 (D.C. Cir., filed July 14, 1978), petitioner sought judicial review of a Board order, dated June 16, 1978 (*Federal Reserve Bulletin*, volume 64, July 1978, page 589), denying the application by Mid-Nebraska Bancshares, Inc., Ord, Nebraska, to become a bank holding company through the acquisition of Nebraska State Bank, Ord, Nebraska. Petitioner claims that the Board's order was not supported by substantial evidence and exceeded the Board's authority under the Bank Holding Company Act. Oral argument was heard by the court on October 1, 1979.

In *Manchester-Tower Grove Community Organization/ACORN* v. *Board of Governors*, No. 78–1898 (D.C. Cir., filed September 12, 1978), petitioner sought judicial review of the Board's order of June 16, 1978 (*Federal Reserve Bulletin*, volume 64, July 1978, page 576), approving the merger of Manchester Financial Corporation, St. Louis, Missouri, into Commerce Bancshares, Inc., Kansas City, Missouri. On December 1, 1978, the court denied petitioner's motion for a stay of the approved merger. Petitioner claims the Board failed to comply with the recently enacted Community Reinvestment Act in approving the merger. The court affirmed the Board's order in a per curiam opinion on October 29, 1979 (607 F.2d 494).

In *Metro North State Bank* v. *Board of Governors*, No. 78–1786 (8th Cir., filed October 30, 1978), petitioner sought judicial review of the Board's order, dated September 27, 1978 (*Federal Reserve Bulletin*, volume 64, October 1978, page 803), approving the acquisition of the Commerce Bank of Clay County, N.A., Kansas City, by Commerce Bancshares, Inc., Kansas City. The court granted petitioner's motion to dismiss on February 12, 1979.

In *United Bank Corporation of New York* v. *Board of Governors*, No. 78–4172 (2d Cir., filed November 1, 1978), petitioner challenged the Board's order, dated October 3, 1978 (*Federal Reserve Bulletin*, volume 64, November 1978, page 894), denying petitioner's application to acquire the Schenectady Trust Co., Albany, New York. The case was dismissed with prejudice pursuant to stipulation, on April 9, 1979.

In *Jackson* v. *Board of Governors*, No. 78–3476 (5th Cir., filed November 13, 1978), petitioners sought judicial review of the Board's order, dated November 1, 1978 (*Federal Reserve Bulletin*, volume 64, December 1978, page 982), approving the application of Texas American Bancshares, Inc., Fort Worth, Texas, to acquire additional shares of Bank of Fort Worth, Forth Worth, Texas. The court affirmed the Board's order on June 29, 1979, in a per curiam decision.

In *Commercial National Bank* v. *Board of Governors*, No. 78–2238 (D.C. Cir., filed December 4, 1978), petitioners sought judicial review of the Board's order, dated November 3, 1978 (*Federal Reserve Bulletin*, volume 64, December 1978, page 964), approving indirect retention by First Arkansas Bankstock Corporation, Little Rock, Arkansas, of First National Bank in Mena, Mena, Arkansas. The court granted petitioner's motion to dismiss on January 26, 1979.

In *Hunter Holding Company* v. *Board of Governors*, No. 78–1907 (8th Cir., filed December 28, 1978), petitioner sought judicial review of a Board order, dated November 29, 1978 (*Federal Reserve Bulletin*, volume 64, December 1978, page 976), denying petitioner's application to become a bank holding company by acquiring Security State Bank of Hunter, Hunter, North Dakota. The court granted petitioner's motion to dismiss on February 6, 1979.

In *California Life Corporation* v. *Board of Governors*, No. 79–1013 (D.C. Cir., filed January 4, 1979), petitioner sought judicial review of a December 7, 1978, letter of the Federal Reserve Bank of Kansas City regarding the proposed acquisition by Baldwin–United Corporation, Cincinnati, Ohio, pursuant to 12 U.S.C. 1843(c)(12) and 12 C.F.R. 225.4(d), of College/University Corporation, Indianapolis, Indiana. The court granted petitioner's motion to dismiss the case with prejudice on June 25, 1979.

In *Gibraltar Financial Corporation of California* v. *Board of Governors*, No. 79–1236 (D.C. Cir., filed March 5, 1979), petitioner challenged, and sought a stay pending review of, the Board's decision of March 2, 1979, pursuant to 12 U.S.C. 1843(c)(12) and 12 C.F.R. 225.9(d), to permit Lumbermens Mutual Casualty Company ("Lumbermens") and its subsidiary, Kemper Corporation ("Kemper"), both of Long Grove, Illinois, to acquire not more than 25 percent of the stock of Gibraltar Financial Corporation of California, Beverly Hills, California ("Gibraltar"), a savings and loan holding company. Lumbermens and Kemper are bank holding companies that have filed irrevocable declarations with the Board to the effect that they will cease to be bank holding companies by January 1, 1981, and are thereby entitled to make nonbanking acquisitions pursuant to 12 C.F.R. 225.4(d). On March 7, 1979, the court denied petitioner's motion for a stay of the Board's order. The court dismissed the action on May 2, 1979, pursuant to a motion filed by Gibraltar.

In *Independent Insurance Agents of America, Inc., et al.* v. *Board of Governors, et al.*, Nos. 79–1280, 1398, 1471 (D.C. Cir., filed March 14, April 20, and May 9, 1979), petitioners challenged orders of the Federal Reserve Banks of New York, Kansas City, and Cleveland approving the applications of First National State Bancorporation, Newark, New Jersey, New Mexico Bancorporation, Inc., Santa Fe, New Mexico, and Pittsburgh National Corporation, Pittsburgh, Pennsylvania, respectively, each to engage through its subsidiary in certain property and casualty insurance agency activities. Petitioner claimed that the orders are not based on substantial evidence, that petitioners were unlawfully denied hearings on the applications, and that the orders violated the Administrative Procedure Act and the Board's procedural regulations. The case is awaiting oral argument.

In *Credit and Commerce American Investments, B.V., et al.* v. *Board of Governors, et al.*, No. 79–1294 (D.C. Cir., filed March 16, 1979), petitioners challenged a Board order (*Federal Reserve Bulletin*, volume 65, March 1979, page 254) dismissing petitioners' application to acquire Financial General Bankshares, Inc., Washington, D.C. The Board found that it was precluded from approving the application because the proposed transaction would violate Maryland law. The case is awaiting oral judgment.

In *American Affiliates, Inc.* v. *Board of Governors*, No. S79–0078 (N.D. Ind., filed April 2, 1979) and No. 79–1332 (7th Cir., filed March 30, 1979), petitioner challenged the Board's decision of March 1, 1979, denying petitioner certification under section 6158 of the Internal Revenue Code of 1954 for the sale of shares of the Wickes Corporation, San Diego, California. On April 7 and 20, 1979, respectively, the United States District Court and the United States Court of Appeals granted petitioner's request to dismiss the actions.

In *U.S. Labor Party* v. *Board of Governors*, Nos. 79–4083, 4084 (2d Cir., filed April 16, 1979), petitioner sought judicial review of the Board's orders of March 16, 1979 (*Federal Reserve Bulletin*, volume 65, April 1979, pages 350, 354). Those orders approved the applications of Standard Chartered Bank Limited and Standard Chartered Overseas Holdings Limited, London, England, and Standard Chartered Bancorp, San Francisco, California, to acquire Union Bank, Los Angeles, California, and The Chartered Bank of London, San Francisco, California, and to merge Union Bank and The Chartered Bank of London; and approved the application of Hongkong and Shanghai Banking Corporation, Hongkong, Kellett N.V., Curacao, Netherlands Antilles, and HSBC Holdings B.V., Amsterdam, the Netherlands, to acquire 51 percent of the voting shares of Marine Midland Banks, Inc., Buffalo, New York. The court dismissed the actions on May 22, 1979, because of petitioner's failure to file its briefs and appendixes in a timely fashion. On June 1, 1979, the court denied petitioner's motions to vacate its earlier dismissals.

In *Jackson* v. *Board of Governors*, No. 79–2171 (5th Cir., filed May 14, 1979), petitioners challenged the Board's order, dated May 2, 1979 (*Federal Reserve Bulletin*, volume 65, June 1979, page 500), approving the application of Texas American Bancshares, Inc., Fort Worth, Texas, to acquire additional shares of Riverside State Bank, Fort Worth, Texas. Petitioners alleged that Texas American Bancshares engaged in discriminatory hiring and promotion practices and claimed that the Board should have denied the application for this reason. The case is pending.

In *Connecticut Bankers Association, et al.* v. *Board of Governors*, No. 79–1554 (D.C. Cir. filed May 30, 1979), petitioners challenged the Board's order (*Federal Reserve Bulletin*, volume 65, June 1979, page 506) approving the application by Citicorp, New York, New York, to engage de novo through its subsidiary in Westport, Connecticut, in the activities of second-mortgage lending and the sale of credit-related insurance. On June 19, 1979, the court stayed the Board's order pending court review. Petitioners argued that the Board was in error in denying petitioners a hearing on the application. Oral argument was heard on October 11, 1979.

In *County National Bancorporation, et al.* v. *Board of Governors*, No. 79–1783 (8th Cir., filed September 18, 1979), petitioners challenged the Board's order of August 27, 1979 (*Federal Reserve Bulletin*, volume 65, September 1979, page 763), denying petitioners' application to acquire TG Bancshares, Co., St. Louis, Missouri. Petitioners alleged that the Board of Governors relied upon an improper standard in denying the application. The case is pending.

In *Boggs, et al.* v. *Board of Governors*, No. 79–1891 (8th Cir., filed October 19, 1979), petitioners challenged the Board's order of September 21, 1979 (*Federal Reserve Bulletin*, volume 65, October 1979, page 871), approving the application of Missouri Country Bancshares, Inc., Liberal, Missouri, to acquire Bank of Raymondville, Raymondville, Missouri. The case is pending.

In *Independent Bank Corporation* v. *Board of Governors*, No. 79–3652 (6th Cir., filed October 22, 1979), petitioner challenged the Board's order of September 21, 1979 (*Federal Reserve Bulletin*, volume 65, October 1979, page 867), denying petitioner's application to acquire The Old State Bank of Fremont, Fremont, Michigan. Petitioner claimed that the Board's order was not supported by substantial evidence and that the denial of the application by only three of the four Governors present, with one Governor dissenting, rendered the Board's order ineffective.

OTHER LITIGATION INVOLVING CHALLENGES TO BOARD PROCEDURES AND REGULATIONS

In a case related to the failure of the United States National Bank, San Diego, California, *Roberts Farms, Inc.* v. *Comptroller of the Currency*, No. 75–0268 (S.D. Cal., filed November 20, 1975), plaintiff sought damages on the grounds that the federal bank regulatory agencies negligently supervised the bank. The case has been stayed indefinitely pending the outcome of similar suits.

In *Merrill* v. *Federal Open Market Committee*, No. 75–0736 (D.D.C., filed May 8, 1975), plaintiff brought suit under the Freedom of Information Act to compel the Committee to disclose immediately records of its policy actions and memoranda of discussion at its meetings in January and February 1975. By order of March 9, 1976 (413 F. Supp. 494), the court ruled that the records of the Committee's policy actions must be made available to the public upon adoption and that reasonably segregable factual portions of the memoranda of discussions must also be disclosed. The Committee appealed the ruling on policy actions (No. 76–1379) to the U.S. Court of Appeals for the District of Columbia Circuit. That court, on November 10, 1977 (565 F.2d 778), affirmed the ruling of the district court that the Committee's monthly policy actions, including its Domestic Policy Directives and tolerance ranges for the money supply and the federal funds rate, must be publicly released upon adoption by the Committee. The Board filed a petition for a writ of certiorari by the Supreme Court for review of the decision of the court of appeals, which was granted (46 U.S. L.W. 3722, 1978). On June 28, 1979, the court vacated the decision of the court of appeals and remanded the case to the district court for consideration of whether the Committee's records would be discoverable in litigation and whether the operative portions of the records can be reasonably segregated from the factual materials (47 U.S.L.W. 4892, 1979).

In Re: Franklin National Bank Securities Litigation, MDL No. 196 (cases consolidated on April 22, 1977), consolidated several actions for damages brought against various defendants who were connected with the Franklin National Bank, New York, New York, which was declared insolvent by the Comptroller of the Currency on October 8, 1974. Several defendants in these actions—the insurers and auditors of Franklin National Bank and its parent holding company—filed, or sought to file, third-party actions against the United States based on the alleged negligence of the banking regulatory agencies, including the Board and the Federal Reserve Bank of New York, in the supervision of the bank. In an opinion dated January 17, 1978, the court declined to dismiss completely the government's motion to dismiss the third-party actions. The court held that in certain circumstances the United States may be liable for alleged negligent supervision by bank regulatory agencies if their decisions with respect to the bank were substituted for those of the bank's management to the bank's detriment. The court granted defendants' motion for summary judgment on November 13, 1979.

In *Hansen* v. *The National Commission on Observance of International Women's Year*, No. 77–1158 (D. Ida., filed September 21, 1977), plaintiff, a U.S. Congressman, brought suit against the National Commission on Observance of International Women's Year and various federal officials, including the Chairman of the Board of Governors, to prevent the expenditure of federal funds in connection with the activities of the Commission. The court granted defendant's motion to dismiss on February 2, 1978, and the plaintiff appealed the case to the U.S. Court of Appeals for the Ninth Circuit (No. 78–2210). The case is pending.

In *Arney* v. *United States, et al.*, No. 77–3503–NA–CV (M.D. Tenn., filed November 11, 1977), plaintiff sought to recover damages for personal injuries allegedly sustained at a construction project at a branch of the Federal Reserve Bank of St. Louis. On December 4, 1979, the court granted defendant's motion for summary judgment.

In *Emch* v. *United States*, No. 77–C–677 (E.D. Wis., filed November 18, 1977), plaintiff, a shareholder of the parent company of the American City Bank & Trust Co., N.A., Milwaukee, Wisconsin, a failed bank, alleged that the Board and other bank regulatory agencies were negligent in supervising and examining the bank. On May 8, 1979, the court dismissed the case without prejudice, and on August 15, 1979, denied plaintiff's motion to file an amended complaint. Plaintiff has filed an appeal.

Three cases were pending in 1979 involving challenges to the Board's employment practices. On June 29, 1977, the complaint in *Hilliard* v. *Burns*, No. 76–1655 (D.D.C., filed December 8, 1976), was dismissed. Plaintiff has filed a notice of appeal from that decision (D.C. Cir. No. 77–1700), and the case is pending. In *Hadigian* v. *Board of Governors*, No. 76–1694 (D.D.C., filed September 17, 1976), the court granted, on December 6, 1978, the Board's motion for summary judgment. The court held that the Board's action was neither arbitrary nor capricious (463 F. Supp. 437). Plaintiff appealed the district court's order (D.C. Cir. No.

79-1216). In *Wiley* v. *United States, et al.*, No. 79–2374 (D.D.C., filed September 7, 1979), the defendants have filed a motion for summary judgment.

In *U.S. League of Savings Associations* v. *Board of Governors, et al.*, No. 78–0878 (D.D.C., filed May 16, 1978), the plaintiff challenged the Board's May 1, 1978, decision to amend Regulation Q, effective November 1, 1978, to permit individual bank customers to transfer funds automatically from their savings to their checking accounts. The court granted the Board's motion for summary judgment on October 31, 1978. The plaintiff appealed the decision to the U.S. Court of Appeals for the District of Columbia, which reversed the district court on April 20, 1979, and set aside the amendments effective January 1, 1980. The U.S. Supreme Court denied defendant's petition for certiorari on October 15, 1979 (48 U.S.L.W. 3258).

In *Independent Bankers Association of Texas* v. *First National Bank in Dallas*, No. CA 3–78–0918–F (N.D. Tex., filed July 26, 1978), the plaintiff alleged that the Board and the Federal Reserve Bank of Dallas are unlawfully permitting the collection of share drafts drawn on federal credit unions. The federal defendants have moved to dismiss.

In *Beckley* v. *Board of Governors*, No. 78–C–2955 (N.D. Ill., filed July 27, 1978), petitioner challenged the Board's withholding of certain raw data used to compile reports. The court dismissed the case on September 14, 1979, pursuant to stipulation by the parties.

In *Consumers Union of United States, Inc.* v. *Miller*, No. 78–2188 (D.D.C., filed November 21, 1978), the plaintiff seeks declaratory and injunctive relief, alleging that the Board exceeded its authority and acted arbitrarily in amending Regulation Z (see *Federal Register*, volume 42, 1977, page 62146) to provide certain exceptions to the right of rescission for credit secured by a consumer's residence. The parties filed a stipulation of dismissal on October 12, 1979.

In *Cundari* v. *United States, et al.*, No. 78–2267 (D.N.J., filed September 19, 1978), plaintiff alleged that the monetary policies of the United States caused inflation that eroded the value of plaintiff's assets and thus deprived him of his property without due process. He also alleged that U.S. monetary policy also violated his right to equal protection because, as a retiree on a fixed income, he is more severely affected by inflation than employed persons. The court dismissed the suit for lack of standing on January 29, 1979, pursuant to defendant's motion.

In *Cundari* v. *United States*, No. 215–79C (Ct. Cl., filed May 17, 1979), plaintiff made the same allegations described above; he sought $500,000 in damages and asked that the court enjoin defendants from pursuing inflationary policies. The case is pending.

In *Brink's Incorporated, et al.* v. *Board of Governors, et al.*, No. 78–2296 (D.D.C., filed December 6, 1978), plaintiff alleged that the Service Contract Act, 41 U.S.C. 351 et seq., applies to certain contracts by the Federal Reserve Bank of Richmond and sought to compel the Reserve Bank to keep in effect a contract between it and plaintiff. On December 8, 1978, the court granted plaintiff a temporary restraining order to compel the Reserve Bank to extend the contract.

On January 11, 1979, the court denied plaintiff's motion for a preliminary injunction and vacated its temporary restraining order (466 F. Supp. 112). On January 26, 1979, the court found that the Service Contract Act applied to the Federal Reserve Bank of Richmond (466 F. Supp. 116).

In *Tangalos* v. *United States, et al.*, No. 79C–1987 (N.D. Ill., filed May 16, 1979), plaintiff sought a declaration that a certain Treasury bill was his property and an injunction preventing the government from making payment on the bill to another person. On June 21, 1979, the plaintiff stipulated to dismissal of the case; on October 4, 1979, the plaintiff moved to reinstate the case.

In *Riegle* v. *Federal Open Market Committee, et al.*, No. 79–1703 (D.D.C., filed July 2, 1979), plaintiff, a member of the U.S. Senate, sought to enjoin the presidents of the Federal Reserve Banks from serving as members of the Federal Open Market Committee. Plaintiff alleged that the provisions of the Federal Reserve Act governing the appointment of members of the Federal Open Market Committee violate the appointments clause of the Constitution, Article II, Section 2, Clause 2. On October 26, 1979, the court granted defendant's motion to dismiss for lack of standing. On November 9, 1979, the court denied plaintiff's motion to alter judgment.

In *Gregory, et al.* v. *Board of Governors*, No. 79–1787 (D.D.C., filed July 27, 1979), plaintiffs sued under the Freedom of Information Act claiming that the Board had improperly withheld portions of memoranda containing staff advice and material from examination reports that concern the acquisition of a failed bank in which plaintiffs were shareholders. Both plaintiffs and the Board have moved for summary judgment.

In *American Bankers Association* v. *Board of Governors, et al.*, No. 79–2066 (D.D.C., filed August 7, 1979), plaintiff sought a declaration that the guidelines (*Federal Register*, volume 44, January 4, 1979, page 1222) published by the financial institutions regulatory agencies for the enforcement of the Truth in Lending Act, 12 U.S.C. 1601 et seq., and Regulation Z, 12 C.F.R. Part 226, are void; they also sought an injunction to prevent the Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation from enforcing the guidelines. Plaintiff alleges that the agencies are not authorized to adopt or enforce such guidelines, and that their adoption was arbitrary and capricious, not according to proper administrative procedure, and in violation of the Truth in Lending Act. The agencies have moved to dismiss the complaint for lack of ripeness. Consumers Union has moved to intervene as a codefendant and to crossclaim against the agencies, seeking an injunction requiring the agencies to initiate enforcement programs under the Truth in Lending Act. Consumers Union has also moved to implead the Federal Home Loan Bank Board as a codefendant. These motions are pending. On October 16, 1979, the court granted the motion of the U.S. League of Savings Associations for leave to appear as amicus curiae.

In *Gordon* v. *Board of Governors, et al.*, No. 79–2893 (5th Cir., filed August 10, 1979), and *Gordon* v. *Board of Governors, et al.*, No. C79–1427A (N.D. Ga., filed August 31, 1979), petitioner challenged the action of the Federal Reserve Bank of Atlanta, in declining to investigate his allegations of fraud by two national banks that acted as trustees for certain real estate syndications in which he apparently invested and lost money. Petitioner asked the courts to compel defendants to investigate his allegations. The U.S. Court of Appeals for the Fifth Circuit dismissed the action before it on January 4, 1980, upon respondents' motion. Petitioner has moved for reinstatement of the petition. Defendants have moved to dismiss the action in the district court.

In *Hadigian* v. *Board of Governors, et al.*, No. 79–2447 (D.D.C., filed September 14, 1979), plaintiff sued under the Freedom of Information Act for disclosure of documents that plaintiff alleged had been withheld by the Board. The Board responded that it had no record of plaintiff's request for documents. The court dismissed the case on November 9, 1979, without prejudice.

In *State of Indiana, et al.* v. *United States, et al.*, No. 79–2452 (D.D.C., filed September 17, 1979), plaintiffs alleged that defendants unlawfully refused to redeem various government bonds that the state had obtained by escheat and requested the court to compel defendants to redeem the bonds. The Board of Governors has filed a motion to dismiss the complaint as to the Board of Governors.

Legislation Enacted

INCREASE IN DEBT CEILING

Public Law 96–78, approved September 29, 1979, increases the temporary debt limit to $879 billion through May 31, 1980. It also increases to $50 billion the amount of long-term U.S. government bonds that may be issued with interest rates above the 4.25 percent statutory ceiling.

Public Law 96–78 also amends the rules of the House of Representatives to permit the House to treat its approval of the budget resolution as its approval of the public debt limit.

An earlier authorization (Public Law 96–5, April 2, 1979) increased the temporary debt limit from $798 billion to $830 billion through September 30, 1979, and increased from $32 billion to $40 billion the amount of long-term U.S. government bonds that could be issued to the public with interest rates above the 4.25 percent statutory ceiling.

Public Law 96–5 also increases the ceiling rate on savings bonds from 6 to 7 percent. In addition, Public Law 96–5 directs the Budget Committees of the Congress to report balanced budgets for the fiscal years 1981 and 1982. It provides that if a budget transmitted by the President to the Congress would result in a deficit in fiscal years 1981 or 1982, the President shall also transmit alternative budget proposals that would not result in a deficit. Such alternative proposals shall include a clear explanation of differences between the budget and alternative budget proposals.

AMENDMENTS TO COUNCIL ON WAGE AND PRICE STABILITY ACT

Public Law 96–10, approved May 10, 1979, extends the termination date of the Council on Wage and Price Stability from September 30, 1979, to September 30, 1980. Among other things, it directs the Council to focus attention on the need to improve productivity in both the public and the private sectors of the economy. It also amends the Employment Act of 1946 to establish numerical goals for the reduction of the share of the gross national product accounted for by federal outlays in 1981 through 1983, but specifies that such policies and programs shall be designed so as not to impede achievement of goals and timetables for the reduction of unemployment.

DIRECT PURCHASE AUTHORITY OF FEDERAL RESERVE BANKS

Public Law 96–18, approved June 8, 1979, provides that Federal Reserve Banks may purchase U.S. obligations directly from the Treasury only in unusual and exigent circumstances for renewable periods not to exceed 30 days; these purchases may be made only when authorized by an affirmative vote of not less than five members of the Board of Governors. In other circumstances, the Treasury Department is authorized to borrow securities from the Federal Reserve and to sell them in the open market for the purpose of meeting its short-term cash needs. The Treasury must repurchase these securities and return them to the Federal Reserve not more than six months after the date of sale.

EXEMPTION OF SAVINGS AND LOAN ASSOCIATIONS FROM FEDERAL TRADE COMMISSION ACT

Public Law 96–37, approved July 23, 1979, exempts savings and loan associations from the jurisdiction of the Federal Trade Commission to the same extent as banks have been previously exempted. Regulations concerning unfair trade practices are to be enforced against savings and loan associations by a division of consumer affairs to be established by the Federal Home Loan Bank Board.

FEDERAL DEPOSIT INSURANCE OF BRANCHES OF FOREIGN BANKS

Public Law 96–64, approved September 14, 1979, extends until January 31, 1980, the time in which a branch of a foreign bank that has applied for federal deposit insurance and whose application has not been denied may continue to accept domestic retail deposits.

CONGRESSIONAL BUDGET RESOLUTIONS

By concurrent resolution adopted by the Senate on November 16, and by the House of Representatives on November 28, the Congress set the appropriate federal budget deficit for the fiscal year beginning October 1, 1979, at $29.8 billion and the appropriate level of the public debt at $886.4 billion, based on budget outlays of $547.6 billion and revenues of $517.8 billion.

Public Law 96–153, approved December 21, 1979, provides for the extension of FHA insurance authority until October 1, 1980. Public Law 96–153 also increases from $60,000 to $75,000 the basic limit on single-family mortgages at savings and loan associations and increases the ceilings on FHA-insured loans to $67,500 for single-family residences, $76,000 for two-family, $92,000 for three-family, and $107,000 for four-family residences. It also overrides state usury laws for FHA-insured loans (subject to reimposition by state legislative action). Public Law 96–128, approved November 28, 1979, exempts VA-guaranteed or -insured loans from state usury ceilings whenever FHA-insured loans are exempted.

Public Law 96–161, approved December 28, 1979, authorizes automatic transfer services for banks, remote-service units for savings and loan associations, and share drafts for credit unions from December 31, 1979, until March 31, 1980. Effective on the date of enactment, NOW accounts are authorized in New Jersey. State usury ceilings on residential mortgage loans are removed until March 31, 1980.

Interest rate ceilings on business and agricultural loans of $25,000 or more are preempted by an interest rate of not more than 5 percent in excess of the Federal Reserve discount rate on 90-day commercial paper until July 1, 1980, if the state usury ceiling is set by statute; if the ceiling is set by the state constitution, the period of preemption ends July 1, 1981. Both of these preemptions may be overridden by state legislative action. Subject to state override, state laws limiting the amount of interest that may be charged or received shall not apply to any deposits held by banks or savings and loan associations for the same time periods.

Public Law 96–185, approved January 7, 1980, authorizes a Chrysler Corporation Loan Guarantee Board to extend loan guarantees to Chrysler not to exceed $1.5 billion until December 31, 1983. The Board consists of the Secretary of the Treasury, the Chairman of the Board of Governors of

States. The Secretary of Labor and the Secretary of Transportation are ex officio nonvoting members.

The Board is authorized to make commitments to guarantee the payment of principal and interest on loans subject to the following conditions, among others: Chrysler must submit to the Board a satisfactory operating plan for the fiscal years 1980–83 demonstrating its ability to continue operations as a going concern in the automobile business and a satisfactory financing plan that includes an aggregate amount of nonfederally guaranteed assistance of at least $1.43 billion. The financing plan must include financial commitments or concessions from parties with a stake in Chrysler's continued operations, such as banks, other creditors, suppliers, and state and local governments; capital infusions; and asset sales. In addition, employees are required to accept reductions of scheduled increases in wages and benefits. An employee stock ownership plan must also be established.

Bank and Bank Holding Company Supervision and Regulation by the Federal Reserve System

DOMESTIC ACTIVITIES AND APPLICATIONS

Bank Holding Companies

The Federal Reserve System is responsible for the supervision and regulation of the activities of bank holding companies and their nonbank subsidiaries, and uses the following major supervisory tools to carry out this function: on-going monitoring and computerized surveillance of financial condition through annual reports and other periodic reports; on-site inspections by examiners trained to analyze financial conditions and to determine compliance with federal banking laws and regulations; and action on applications to form bank holding companies or to establish or acquire additional bank or nonbank subsidiaries.

Monitoring and surveillance have recently been enhanced by a detailed computer-generated Bank Holding Company Performance Report. This report processes information received from bank holding companies into standard formats, and groups the banks by size of assets to make possible the early screening and analysis of a company's financial condition.

The System also receives an annual report from all bank holding companies, which includes a separate financial statement on the parent holding company, on each bank and nonbank subsidiary, and on the consolidated organization. Most large holding companies also file a semiannual report, which includes the parent only and consolidated financial statements; and a quarterly report on intercompany transactions. By using these reports, as well as publicly available information, the Federal Reserve can be currently aware of the condition of bank holding companies and can promptly detect a significant deterioration in condition.

The most direct tool for supervising bank holding companies is the System's on-site inspection function. Among other areas of interest, the bank holding company examiners review the following:

1. Policies formulated by management to administer the operations of subsidiaries

2. Recordkeeping and controls necessary to manage the organization properly

3. The quality of assets held by the parent company and its nonbank subsidiaries

4. The overall financial condition of the parent and the consolidated entity, and the parent's ability to service its debt obligations properly

5. Nonbank activities for compliance with federal banking laws and regulations.

Over the last two years, the Federal Reserve has expanded and intensified the inspection program for bank holding companies. It now conducts an annual inspection of most bank holding companies that have consolidated assets in excess of $300 million and that engage in permissible credit-extending nonbank activities, such as leasing, mortgage banking, and consumer finance.

In 1979 the System introduced a new standardized Report of Bank Holding Company Inspection for use in inspecting small bank holding companies that do not engage in significant nonbank activities. This new report and the form used for inspecting large bank holding companies, which was adopted in 1978, together constitute a uniform and comprehensive source of information to the companies being inspected, as well as to the various bank regulatory agencies. In addition, the System has finished drafting a new manual for the supervision and inspection of holding companies; it will be available to supervisory personnel in 1980.

During 1979 the federal bank regulatory agencies approved policies to enhance interagency coordination in the inspection and implementation of corrective action for holding companies and their banking subsidiaries. Henceforth, these agencies will undertake to coordinate the inspection of a bank holding company with the examination of the lead bank, whenever possible; such coordination will be required for holding companies with consolidated assets in excess of $10 billion and those considered in need of special supervisory attention.

At the end of 1979, 2,520 bank holding companies were in operation.

On December 27, 1979, revisions to the bank holding company application forms (FR Y-1, FR Y-2, and FR Y-4) became effective. The revisions are part of the System's broad-based effort to review and restructure the forms filed by bank holding companies, to improve the quality of responses, and to reduce the reporting burden on the respondent. Each of the revised application forms requests the minimal information necessary to support reasonable judgments about the actions proposed in the applications.

Each action by the Board on an application to form a bank holding company or to expand an existing company through acquisition of a bank or an existing nonbank company is effected by an order. Orders set forth the action taken, the votes by the Board members participating, the essential facts, and the basis for the action.

Whether issued by the Board or by Reserve Banks acting under delegated authority, orders are released immediately to the public and press. Copies are available from the Board's offices, and the System's actions are reported in Board publications, including the *Federal Reserve Bulletin* and the weekly H.2 release on actions of the Board. In September 1979, the Board issued revised rules for delegation that provided for substantial further delegation of authority to Reserve Banks to approve bank holding company and merger applications. The new rules provide for approval only; all denials will continue to result from a Board vote. Moreover, Reserve Banks must act under delegated authority within the framework of policy established by the Board and must strictly adhere to all standards set by the Board.

The new plan should have several major benefits. First, shifting the Board's workload of applications will allow Board members to devote more time to bank regulatory issues and legislative requirements, as well as to policy issues concerning applications. Second, there will be a reduction in the average time required to process those applications that are handled under delegated authority. Third, Reserve Bank and Board staff resources will be more efficiently used through the elimination of some duplication of effort in processing routine cases.

The number of proposals acted on during 1979 by the Board, and under delegated authority by the Secretary's Office and the Federal Reserve Banks, are shown in the table below.

Section	Direct action		Delegated authority			Total
	Board		Secretary's Office	Reserve Banks		
	Approved	Denied	Approved	Approved	Permitted	
3(a)(1)	73	3	38	258	0	372
3(a)(3)	68	6	11	83	0	168
3(a)(5)	4	2	0	0	0	6
4(c)(8)	61	3	3	33	450	550
4(c)(12)	2	0	0	0	22	24
4(d)	1	0	0	0	0	1
Total	209	14	52	374	472	1,121

Although the number of applications processed increased by 7 percent in 1979 over 1978, the System again processed more than 90 percent within 90 days of the filing of a legally and informationally sufficient application, as the table below indicates. This standard is self-imposed and is considerably more difficult to meet than the period referred to in the Bank Holding Company Act.

Item	1978					1979				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Number processed	269	257	270	251	1,047	265	222	286	348	1,121
Percent processed within 90 days	90	90	95	94	92	94	91	89	93	92

During 1979, the Board, as well as the other federal financial regulatory agencies, completed a full year of experience with the Community Reinvestment Act (CRA). That statute provides that, in acting upon an expansion proposal involving depositary financial institutions, an agency must consider the applicant's record in meeting the credit needs of its community. Since November 6, 1978, all applications to acquire a bank have had to discuss the applicant's performance in this respect.

Of 546 bank holding company applications subject to CRA that came before the Board in 1979, only 7 were protested on CRA grounds. After prolonged processing periods, all 7 applications were approved. In each case, however, the applicant modified, or promised to modify its behavior toward meeting the credit needs of its community. It became clear, during the processing of the protested cases, that neither the communities nor the applicants are well served by protracted processing periods and repeated exchanges of charges and responses. The Board, therefore, refined its procedures for handling protests, and made them available to the public in connection with the release of a CRA Information Statement on January 3, 1980; that release also outlined the Board's views with regard to its experience with CRA.

Although many firms have responded positively to the Board's recent policy statements requesting bank holding companies with grandfather rights expiring on December 31, 1980, to file retention applications or divestiture plans promptly, a number of firms either have not complied or have not made provisions for compliance. On December 13, 1979, therefore, the Board issued a fourth policy statement on the subject, which pointed out the further consequences of noncompliance. In aggravated cases, these may include the assessment of civil money penalties or referral to the U.S. Department of Justice for possible criminal prosecution. The potential for penalties is not lessened because applications or divestitures are in progress on December 31, 1980. However, time and a variety of feasible options do remain for affected firms. Further, the Federal Reserve System has intensified its contacts with each situation believed to present serious difficulties.

Aiding compliance with the December 31, 1980, deadline was the repromulgation of the Board's regulation governing the sale of insurance in towns of less than 5,000 persons. On remand from a federal appeals court, the Board again determined that such insurance was closely related to banking and in the public interest. This determination paves the way for approximately 140 bank holding companies, whose grandfather rights with respect to this activity expire on December 31, 1980, to file for retention under the Bank Holding Company Act.

Member Banks

Each state member bank is subject to examination, made by direction of the Board of Governors or of the Federal Reserve Bank of the district in which it is located, by examiners selected or approved by the Board. The general policy is for the Bank to conduct at least one regular examination of each state member bank in its district during each calendar year and to prepare a complete examination report. Banks that exhibit no major unsatisfactory features in operations and financial condition, and that have been operated prudently, may have a limited examination in one year, with a brief report, and a full examination in the following year. Banks with severe problems are examined fully at least once in each calendar year and more often when necessary. In some states concurrent examinations are made in cooperation with the state banking authorities; in others, the examinations are independent. In 1979, 958 of 977 state member banks were examined.

The Board makes its reports of examination of state member banks available to the Comptroller and to the Federal Deposit Insurance Corporation (FDIC). Also, upon request, the FDIC provides its reports of examination of insured nonmember state banks to the Board.

In its supervision of state member banks, the Board analyzes reports of examination of state member banks and coordinates and evaluates the examination and supervisory functions of the System. Similar oversight is exercised with respect to bank holding companies, for which the Board has sole supervisory responsibility.

National banks, all of which are members of the Federal Reserve System, are subject to examination by direction of the Board or of the Federal Reserve Banks. As a matter of practice, neither examines them because the law charges the Comptroller of the Currency with that responsibility. The Comptroller provides reports of examination of national banks to the Board upon request, and to each Federal Reserve Bank.

The Board passes on applications for admission of state banks to membership in the System, administers the public-disclosure requirements of the Securities Exchange Act of 1934, as amended, with respect to equity securities of state member banks within its jurisdiction under the 1934 act, and regulates certain security credit transactions. Under provisions of the Federal Reserve Act and other statutes, the Board passes on applications of member banks for permission to (1) merge banks, (2) establish domestic and foreign branches, (3) exercise expanded powers to create bank acceptances, (4) establish foreign banking and financing corporations, and (5) invest in bank premises an amount in excess of 100 percent of the bank's capital stock.

By Public Law 95–630, approved November 10, 1978, proposed changes in the control of state member banks and bank holding companies and loans by insured banks that are secured by 25 percent or more of the voting stock of any state member bank must be brought to the attention of the appropriate Reserve Bank; proposed acquisitions may be disapproved by Board action. Seven changes in ownership of the outstanding voting stock of state member banks in 1979 were reported to the Federal Reserve Banks as changes in control; 32 changes were reported with respect to bank holding companies. Arrangements continue among the three federal supervisory agencies for exchange of reports received pursuant to the act and prior legislation. The Reserve Banks send copies of

Period covered (condition report dates)	Total loans to executive officers		Range of interest rates charged (percent)
	Number	Amount (dollars)	
July 1–Sept. 30, 1978	1,076	5,036,667	7–15
Oct. 1–Dec. 31, 1978	1,009	4,337,671	7–16
Jan. 1–Mar. 31, 1979	1,007	4,617,356	7–15
Apr. 1–June 30, 1979	1,244	5,398,006	7–16
July 1–Sept. 30, 1979	1,109	5,838,257	7–15
Oct. 1–Dec. 31, 1979	1,001	6,118,045	8–15

all reports received to the appropriate district office of the FDIC, the Regional Administrator of National Banks (Comptroller of the Currency), and the state bank supervisors.

By Public Law 90–44, approved July 3, 1967, each member bank of the Federal Reserve System must include with its reports of condition a list of all loans to its executive officers since its previous report. Data submitted by state member banks during 1979 appear in the accompanying table.

Federal Reserve Membership

As of December 31, 1979, member banks accounted for 37 percent of the number of all commercial banks in the United States and for 57 percent of all commercial banking offices, and they held approximately 57.9 [1] percent of the total deposits in such banks. State member banks accounted for 11 percent of the number of all state commercial banks in the United States and for 27 percent of the banking offices, and they held approximately 46.6 [1] percent of total deposits in state commercial banks.

Of the 5,425 banks that were members of the Federal Reserve System at the end of 1979, there were 4,448 national banks and 977 state banks. During the year there were net declines of 116 national and 23 state member banks. The decline in state member banks was offset in part by the organization of 42 new national banks and by the conversion of 1 nonmember bank to a national bank. The decrease in state member banks reflected mainly 29 withdrawals from membership and 31 conversions to branches incident to mergers and absorptions.

At the end of 1979, member banks were operating 23,686 branches, facilities, and additional offices, 856 more than at the end of 1978. During the year member banks established 1,051 de novo branches.

Detailed figures on changes in the banking structure during 1979 are shown in table 18 in the Statistical Tables section of this REPORT.

Bank Mergers

Under section 18(c) of the Federal Deposit Insurance Act, 12 U.S.C. 1828(c), the prior written consent of the Board of Governors must be obtained before a bank may merge, consolidate, or acquire the assets and assume the liabilities of another bank if the resulting bank is to be a state member bank.

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[1] This percentage reflects the call report figures of September 30, 1979.

In deciding whether to approve an application, the Board is required by section 18(c) to consider the impact of the proposed transaction on competition, the financial and managerial resources and prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. The Board is precluded from approving "any proposed merger transaction which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States." A proposed transaction "whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade" may be approved only if the Board is able to find that the anticompetitive effects of the transaction would be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

Before acting on each application the Board must request reports from the Attorney General, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation on the competitive factors involved in each transaction. The Board in turn responds to requests by the Comptroller or the FDIC for reports on competitive factors involved when the resulting bank is to be a national bank or an insured nonmember state bank.

During 1979 the Board approved 7 merger applications and submitted 78 reports on competitive factors to the Comptroller of the Currency and 62 to the FDIC. In addition, the Secretary of the Board approved 2 merger applications and the Federal Reserve Banks approved 23 merger applications on behalf of the Board pursuant to delegated authority. As required by section 18(c), a description of each of the 32 applications approved by the Board, the Secretary, or the Reserve Banks, with other pertinent information, is shown in table 20.

Orders of the Board with respect to all bank merger applications, whether approved or disapproved, are released immediately to the press and public. These orders set forth the factors considered, the conclusions reached, and the vote of each member of the Board present.

Miscellaneous Actions under Delegated Authority

In addition to delegating action on certain applications concerning bank holding companies and bank mergers, the Board of Governors has authorized the Reserve Banks to approve certain applications of state member banks to establish domestic branches, to invest in bank premises, and to grant or deny a waiver of six months' notice by a bank of its intention to withdraw from membership in the Federal Reserve System.

The Board has authorized the Reserve Banks to furnish to the Comptroller of the Currency and the Federal Deposit Insurance Corporation reports on competitive factors under section 18(c)(4) of the Federal Deposit Insurance Act, 12 U.S.C. 1838(c)(4).

INTERNATIONAL ACTIVITIES AND APPLICATIONS

In 1979 the Board issued a new Regulation K entitled "International Banking Operations." The revised regulation governs the establishment of foreign branches of member banks, the organization and operation of Edge and agreement corporations, and foreign investments by member banks, bank holding companies, and Edge and agreement corporations.

The revision of Regulation K resulted in part from section 3 of the International Banking Act of 1978, which was intended to improve the competitiveness and efficiency of Edge corporations in providing international banking and financial services. In addition, several provisions of the regulation had been under review for modification. The Congress declared in section 3 that Edge corporations are to have powers sufficiently broad to enable them to compete with foreign banks in the United States and abroad; to provide all segments of the economy, especially exporters, financing for international trade; and to foster participation by regional and smaller banks in international banking and finance.

Important new provisions of the revised regulation permit domestic branching of Edge corporations; permit those corporations to finance the production of goods and services for export; liberalize the approval procedures under which foreign investments may be made and foreign branches established; specify permissible foreign activities; and permit foreign ownership of Edge corporations.

Foreign Activities of Member Banks

Under provisions of the Federal Reserve Act (section 25 for national banks and sections 9 and 25 for state member banks) and Regulation K, member banks may establish branches or subsidiaries in foreign countries and invest in foreign banks, usually subject to prior Board approval. In reviewing proposed transactions, the Board considers regulatory limitations, the condition of the bank, and the bank's existing foreign operations. In 1979 the

Board approved 65 applications and notifications for the establishment of branches in foreign countries.

At the end of 1979, member banks had in active operation 779 branches in foreign countries and overseas areas of the United States: 107 national banks were operating 660 of these branches, and 32 state member banks were operating 119 branches. The growth in the number and total assets of foreign branches is shown in the table below.

Year	Number		Total assets (billions of dollars)	
	Foreign branches	Sections 25 and 25(a) corporations	Foreign branches[1]	Sections 25 and 25(a) corporations
1971	577	85	55.1	5.5
1972	627	92	72.1	6.1
1973	699	103	108.8	6.9
1974	732	117	127.3	10.1
1975	762	116	145.3	9.1
1976	731[2]	117	174.5	11.1
1977	738	122	205.0	13.4
1978	761	124	232.0	14.8
1979	779	132	290.0[e]	16.3[e]

[e] Estimated.

[1] These data are derived from reports of condition that were filed at the end of the year with the Comptroller of the Currency and the Federal Reserve System, and they differ in certain respects from other statistical reports on overseas branch operations. The amounts shown are net of claims on other foreign branches of the same bank.

[2] This decrease from 1975 is due primarily to the conversion of 30 branches in Colombia into subsidiaries to conform with Colombian banking laws.

International Financial Corporations

Under provisions of sections 25 and 25 (a) of the Federal Reserve Act and Regulation K, corporations ("Edge Act" or "agreement" corporations) may be established to engage in international banking or foreign financial transactions. These corporations are generally of two types: banking corporations that are located in U.S. commercial centers other than the location of their parent banks, and that engage in international banking; and investment corporations that hold foreign investments for their parent banks in such financial institutions as commercial banks, finance companies of various kinds, and leasing companies.

Under the provisions of section 25(a) of the Federal Reserve Act, the Board issued eight final permits during 1979 for corporations to engage in international or foreign financial operations. The articles of association were approved and a preliminary permit was issued for the formation of one other corporation.

Growth in the number of section 25 and 25(a) corporations is given in the accompanying table.

Capitalization and Activities of Edge Corporations

The International Banking Act of 1978 (IBA) amended section 25(a) of the Federal Reserve Act dealing with Edge corporations in several respects. One amendment removed the provision that limited an Edge corporation's liabilities on account of debentures, bonds, and promissory notes to ten times the corporation's capital and surplus. Another removed the statutory minimum 10 percent reserve requirement on the deposits of an Edge corporation. Still another permitted foreign banks for the first time to own and control Edge corporations. Section 3(h) of the IBA requires the Board, as part of its ANNUAL REPORT, to assess the effects of these amendments on the capitalization and activities of Edge corporations, banks, and the banking system.

Among other things, the new Regulation K establishes rules governing Edge corporations. The rules conform to the elimination of the statutory minimum reserve requirement. They also establish a new capital requirement for Edge corporations that are engaged in banking activities in the United States—namely, 7 percent of risk assets.

Because the revised regulation implementing the provisions of the IBA affecting Edge corporations was in effect for only half the year, it is not possible to provide a full assessment of their effects on the capitalization and activities of Edge corporations, banks, or the banking system. It is noteworthy that during 1979, the Board approved applications by four foreign banks to establish Edge corporations. These corporations, located in Miami, Houston, and Los Angeles should add to the international financial services available within the United States in furtherance of the foreign commerce of the country. The Board also approved in December the establishment by two Edge corporations of four branches, in Chicago, Houston, Miami, and New York.

Investment Activity

In the area of foreign investments, the Board has responsibility under sections 25 and 25(a) of the Federal Reserve Act and section 4(c)(13) of the Bank Holding Company Act to approve applications and notifications for foreign investments by bank holding companies, member banks, Edge corporations, and agreement corporations. In 1979 the Board processed 170 such applications and notifications. The vast majority of proposals for foreign investments were for additional investments, including those in investment banks in Spain, Germany, and Argentina; in leasing companies in France and Canada; and in finance companies in Japan and Venezuela. New investment proposals included those for commercial bank subsidiaries in Argentina and Bahrain and those by bank holding companies for foreign financing subsidiaries to raise funds abroad.

Timely Processing of Applications

As in the domestic area, the System measures its performance in the timely processing of international applications against a 90-day standard. The number of international applications processed declined from 287 in 1978 to 235 in 1979. In that year, 93 percent of the applications were processed within 90 days compared with 86 percent the year before, as the following tabulation shows.

Year	Q1		Q2		Q3		Q4		Year	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
1978	47	89	67	82	75	84	98	89	287	86
1979	73	99	64	94	47	85	51	90	235	93

A new Federal Reserve program, implemented in 1979, has placed greater emphasis on the training of bank examiners. With the passage of legislation creating the Federal Financial Institutions Examination Council, the responsibilities for training assigned to the Federal Reserve System have been added to this program.

One of the objectives of the program is to train approximately 750 System examiners and other staff members with supervisory and regulatory responsibilities. A core of training courses, basic through advanced, is offered; subject matter includes examination procedures as well as instruction in specialized areas such as consumer protection, civil rights, and the Community Reinvestment Act; trust activities; international banking; electronic data processing; bank fraud; and management and instructor training. Much of the specialized training is offered in interagency courses, which are developed jointly by the Federal Reserve and other members of the Examination Council.

During 1979 the Board's banking schools consisted of two sessions each of the School for Examiners; the School for Assistant Examiners; the Banking I School, which replaced the School for Assistant Examiners in the second half of 1979; the basic Consumer Affairs School; the special Consumer Affairs School, which deals with civil rights, the Community Reinvestment Act, and annual percentage rates; and the Bank Holding Company Application School. There was also one session each of the School for Trust Examiners, the Senior Trust Workshop, the Bank Holding Company Inspection School, the Financial Analysis School, and the FIRA (Financial Institutions Regulatory and Interest Rate Control Act of 1978) Seminar. System staff participated jointly with staff of other members of the Examination Council in one session each of the Community Reinvestment Act School, the Senior Trust Workshop and the Train the Trainer Workshop; and two sessions each of the Data Processing School, the Management Seminar, and Instructor Training School.

System schools continued to offer enrollment to representatives of various state banking departments and several foreign countries. Approximately 650 students attended in 1979.

Condition of the Banking System

In the last three years by most traditional measures the banking system has performed well. The number of bank failures each year from 1977 through 1979 has been below the levels prevailing during the mid-1970s; and in 1979 no bank of significant size failed. The number of so-called problem banks also has been declining during this period; and by the end of 1979 only about 2 percent of the state member banks that are supervised by the Federal Reserve were subject to special supervisory attention. Finally, there has been significant improvement during the last three years in most of the indexes of bank soundness.

The financial condition of the American banking system to a significant extent mirrors the state of the domestic economy and, increasingly, the world economy. The close relationship between the domestic economy and the banking system was vividly demonstrated during the mid-1970s, when the worst economic downturn since the Great Depression contributed to a sharp rise in bank loan losses, the failure of several large banks, and an ebbing of public confidence in the banking system. Since the mid-1970s, the economy has experienced a significant expansion, although at an uneven rate. In this economic environment the condition of the banking system has improved markedly, although inflation has continued to exert a strain on bank capital ratios. As 1980 approaches, many economic forecasters are calling for a mild recession, followed by a slow recovery. If this less favorable environment should evolve, it will likely present bank managers with new challenges as the year unfolds.

In the last 15 years the largest U.S. banks have greatly expanded their operations abroad, and many now derive a sizable portion of their total earnings from international banking. As a result, they have become subject, both directly and indirectly, to foreign economic and political developments that previously had little relevance for U.S. banks. Probably the most far-reaching international development in the field of banking has been the role of U.S. banks as major depositories for oil-producing nations and as major lenders to the less developed countries that import oil. In this recycling process, U.S. banks are stressing diversification of risk and are monitoring closely their exposure to loss in individual countries.

The competitive environment in which U.S. banks now operate is changing rapidly and is having a pervasive effect on the behavior and performance of banks. In recent years U.S. banks have had to face steadily rising competition from thrift institutions and foreign banks, and more recently from money market mutual funds. These competitive forces have motivated banks to offer a variety of new or improved financial instruments and services, and have tended to narrow bank profit margins.

INDICATORS OF BANK SOUNDNESS

The condition of the banking system is determined by a variety of factors, key among which are asset quality, capital, and earnings.

Asset Quality

In the last several years the quality of bank portfolios has improved substantially, following the sharp deterioration experienced in the mid-1970s. At the end of 1979, the volume of nonperforming assets of the nation's larger banking organizations was down more than 40 percent from the level recorded at the end of 1976.[1] Stated differently, the ratio of nonperforming assets to total assets for these large organizations was about 1 percent at the end of 1979 compared with a little over 2½ percent at the end of 1976. Improved asset quality also has been reflected in a steady decline in bank loan charge-offs over the last three years. Real estate loans and foreclosed properties continued to be the largest single category of low-quality bank assets at the end of 1979.

As the banking system moves into 1980 there are several areas of potential vulnerability. One is consumer credit. Consumer installment debt has been growing at a rapid rate — about 16 percent per year, on average, beginning in 1976. As a consequence, consumer debt-servicing burdens have risen significantly, with annual payments relative to disposable income reaching their highest level in many years. During the last several years delinquencies on consumer installment loans as a percentage of outstanding consumer loans have remained fairly flat. This percentage moved up in late 1979, and could rise further in 1980 if the economy should turn down. In past recessions, however, consumers have shown substantial resilience and have avoided large-scale defaults on their debts.

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[1] Nonperforming assets include assets that are not accruing interest, assets that are accruing interest at rates below that originally contracted, and real estate acquired by the bank as a result of foreclosure.

Another area that bears watching is bank lending to less developed countries (LDCs), especially those that are not oil producers. Many of these countries already are carrying sizable burdens of debt. In addition, it now seems likely that a number of the countries that have been running sizable balance of payments deficits will have to run even larger deficits in 1980 and perhaps beyond. One reason is the recent substantial increases in petroleum prices set by the Organization of Petroleum Exporting Countries. These price increases will tend to boost the cost of imports of the non-oil LDCs. Another reason is the likely economic slowdown in the United States and Europe, which will tend to lower the value of exports of raw materials and manufactured goods of the LDCs. These increasing deficits will have to be financed until the LDCs can adjust their trade positions. During this interval, the debt-servicing capabilities of these nations may deteriorate somewhat and several countries could be forced to restructure their bank debt.

A third area of concern is that some large banks are known to have loans outstanding to two large American corporations whose financial problems have been well publicized. If these problems cannot be solved, some banks could suffer significant losses; they should, however, be able to absorb them out of current earnings.

Finally, in the last several years the number of municipalities experiencing financial difficulties has significantly increased and several have been forced to default on their debt. Because banks are large holders of municipal debt, these developments are troublesome. However, banks have not suffered a significant loss of principal on municipal debt since the 1930s. Moreover, any defaults on such debt in the near future are likely to be temporary and probably would result only in an interruption in the flow of income.

Capital

During the years 1977–79, bank capital ratios have resumed their long-term decline, and by the end of 1979 were about equal to the previous historic lows established in 1974. By far the sharpest decline in such ratios in this period has been experienced by banks with total assets in excess of $5 billion. In contrast, capital ratios have risen for banks with total assets of less than $100 million, many of which serve the slower-growing rural areas of the nation.

By spurring the demand for bank credit by businesses, consumers, and governments, inflation has made the major contribution to this decline in capital ratio. In response to the demand for credit, banks have increased their assets and loans during the last three years at relatively rapid annual rates of about 13 and 14 percent respectively, thereby eroding their capital ratios. In an attempt to arrest the decline, banks have been building up their equity capital from retained earnings at a reasonably healthy annual rate of 8 to 9 percent. However, they have not been able to use external equity financing because bank stock prices have been depressed. In fact, at the end of 1979, the stocks of most of the nation's major banking organizations were selling at only four to six times earnings, and also were selling below book value.

The key to arresting the decline in bank capital ratios is control of inflation. If the rate of inflation is reduced, banks need not grow so fast to provide the economy with adequate financing. Moreover, such a reduction should have a favorable impact on bank stock prices, thereby increasing the ability of banks to build up capital through equity financing.

Earnings

During the past three years bank earnings have been strong, outdistancing the growth of total corporate profits. For 1979 alone, earnings for the banking system appear to have risen 15 to 20 percent, with banks in all size groups participating. Two factors accounted for the good earnings performance of 1979: the earning assets of banks continued to rise at a healthy rate; and net interest margins held up well, aided by a rise in the general level of interest rates, fewer nonaccruing assets, and a shift in bank portfolios toward higher-yielding assets.[2] One offsetting factor was a significant change in the composition of bank liabilities from certain low-cost sources of funds, such as savings deposits, to higher-cost sources, such as money market certificates.

During late 1979 some banks, particularly small banks, began to encounter earnings problems. Banks most affected were those experiencing (1) a rapid increase in interest expense due to a shift in their liabilities from savings deposits to money market certificates; and (2) a slow growth in interest income because a relatively large portion of their assets, such as bonds and mortgages, have fixed interest rates.

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[2] The net interest margin for a bank is equal to the difference between the interest earned and the interest paid by the bank divided by its average total assets.

SUPERVISORY AND REGULATORY IMPROVEMENTS

During 1979 the Federal Reserve continued efforts to improve the effectiveness of the supervisory process and to ensure uniform and equitable supervisory treatment of all federally regulated depositary financial institutions. In cooperation with the other federal regulatory agencies, the Federal Reserve developed and refined new programs for the supervision and regulation of commercial banks, bank holding companies, Edge corporations, and the U.S. offices of foreign banking institutions. Considerable effort was devoted to implementing two pieces of significant banking legislation enacted in the latter part of 1978: the Financial Institutions Regulatory and Interest Rate Control Act and the International Banking Act. As part of the process, the Federal Reserve reexamined supervisory policy for foreign bank holding companies and developed a framework based upon national treatment for the supervision of U.S. branches and agencies of foreign banks. Reporting requirements for these institutions were also developed and will be implemented in the near future. Other major accomplishments included the consolidation of several foreign regulations into a revised and simplified Regulation K, as well as a major revision of regulations for the purpose of implementing the act.

The Federal Reserve continued past initiatives and undertook new steps in 1979 to strengthen its program for supervising bank holding companies. Progress was made in implementing the Board's expanded program for subjecting most large bank holding companies (those with consolidated assets in excess of $300 million) to annual on-site inspections. The bank holding company supervisory process has also been enhanced by (1) the drafting of a comprehensive holding company supervision and inspection manual that sets forth the Federal Reserve's supervisory policies and procedures; (2) the adoption of a system for evaluating and rating holding companies to identify better the institutions requiring special attention; (3) the establishment of a Systemwide surveillance program that provides for semiannual computer-assisted screening of bank holding company data; and (4) the development of a performance report for bank holding companies that provides a systematic presentation of historical and peer-group financial data.[3]

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[3] For further details, see Bank Holding Companies in the section "Bank and Bank Holding Company Supervision and Regulation by the Federal Reserve System."

To streamline the applications process, additional authority has been delegated to the Reserve Banks to act on bank holding company applications. In recent months about 90 percent of such applications have been processed within 90 days.

During 1979 the Board also reviewed its policies regarding the treatment of acquisition debt arising in the formation of small one-bank holding companies and issued its proposed changes for public comment. These changes were designed to improve the transferability and to encourage continued local ownership of small banks, while assuring that acquisition debt remains within prudent limits.

Improvements also were made in 1979 in the supervision of state member banks. These improvements include (1) new policies and procedures to implement the Community Reinvestment Act; (2) procedures to ensure that formal administrative actions are utilized in a timely and consistent fashion with respect to banks that require special supervisory attention; and (3) further development of the Federal Reserve's bank surveillance program, which provides quarterly computerized screening and analysis of data from bank balance sheets and income statements. In addition, the Federal Reserve continued efforts to enhance supervisory cooperation among central banks and the banking authorities of the major countries. Finally, an interagency committee on country risk exposure, a group assigned the responsibility of administering uniform examination procedures for country risk, was established early in 1979. Its purpose was to review foreign lending situations that could have a significant impact on U.S. banks.

During the year the Federal Reserve devoted considerable resources to assisting in the organization of the Federal Financial Institutions Examination Council and to the work undertaken by that group. Among the principal supervisory accomplishments of the council in which the Federal Reserve played a significant role were the development of a uniform rating system for identifying financial institutions in need of special supervisory attention, the establishment of procedures for coordinating the examination and supervision of banks and their parent holding companies, and the design of a uniform report of examination and report of condition for branches and agencies of foreign banks operating in the United States. The council has also formulated uniform curricula and established joint schools for the training of examination personnel from all the federal regulatory agencies.

Regulatory Improvement Project

The Regulatory Improvement Project, initiated in mid-1978, represents an effort to reduce regulatory burden. It entails a zero-base review of the form and substance of existing Federal Reserve regulations. It also involves the application of expanded rulemaking procedures. Under these procedures, the Board's policy is to encourage public participation in the development of regulations, analyze the costs and benefits of regulatory proposals and their alternatives, and inform the public of the reasons for the Board's regulatory actions. Throughout the project, special consideration is given to the impact of regulatory burdens on small business.

During 1979 the new rulemaking procedures began to be applied to new regulations and regulatory amendments, while noticeable progress was made in reviews of existing rules.

As of the end of the year, reviews had been completed on eight regulations: C (Home Mortgage Disclosure); E (Purchase of Warrants); K (International Banking Operations); L (Management Official Interlocks); M (Foreign Activities of National Banks); O (Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks); S (Bank Service Arrangements); and V (Loan Guarantees for Defense Production). Three (E, M, and S) had been abolished. However, as a result of the adoption of new legislation, two (E and S) had to be replaced with new regulations concerning electronic fund transfers and reimbursement to financial institutions for providing financial records.

During the year, the Board adopted simplified rules for the computation of annual percentage rates under Regulation Z (Truth in Lending). The simplified rules are of particular value to small financial institutions and other small businesses without the highly specialized personnel or equipment sometimes needed to compute annual percentage rates.

In addition, the Board invited public comment on a revision of Regulation J (Collection of Checks and Other Items and Transfers of Funds), rewritten to make it easier to understand. Comment also was requested on proposed amendments to Regulation F (Securities of Member State Banks). The amendments would, among other things, facilitate preparation of financial reports for stockholders, which are especially burdensome to smaller banks.

Federal Reserve Banks

DEVELOPMENTS IN PAYMENTS MECHANISM

Payments through automated clearinghouses (ACHs) continued to expand in 1979 as a result of efforts to bring the program to its full potential for increasing the efficiency of the nation's payments mechanism. Approximately 146 million items were cleared through ACHs in 1979, an increase of 40 percent over the previous year. New time schedules were adopted for items presented to ACHs in order to increase the attractiveness of such fund transfers to users. Additions to the Direct Deposit of Federal Recurring Payments Program during the year were retirement payments of the Department of the Army; payments of the Marine Corps to marines on active duty; and salary payments of the Veterans Administration, the Small Business Administration, the National Aeronautics and Space Administration-Langley Field, and the Air Force-Newark Station. Subpart C of Regulation J (Collection of Checks and Other Items and Transfer of Funds), which will govern the use of ACH facilities by financial institutions, was drafted and published for comment in the *Federal Register* (volume 44, 1979, page 67995).

Federal Reserve float, a continuing source of concern, moved higher during the year with increases in both the volume and the dollar value of checks. Among the actions initiated to control or to reduce float were the design of an automated system for tracking interterritory check shipments, and improvements in the System's Interdistrict Transportation System (ITS) and in the check-processing capabilities of the Federal Reserve Banks. These actions contributed to a substantial reduction in the high levels of float experienced in early 1979.

Recently, in an effort to delay payment, some banks and their corporate customers have made arrangements to write checks on banks that are distant from the areas where the checks probably will be deposited. On January 11, 1979, the Board issued a policy statement expressing its concern that such arrangements expose both the bank and the recipient of the check to a greater risk of loss, and represent unsound banking practices. The statement, emphasizing the public responsibility of the banking industry not to offer services that are designed to delay settlement, called on banks to make a joint effort to eliminate such practices. A broad program in support of this policy was outlined.

During the year, work progressed on the design of several new payments system services to be offered by Federal Reserve Banks. These included settlement services for private-sector clearing facilities such as BankWire and CHIPS, and electronic check-presentment facilities to speed settlement and reduce resource requirements. In addition, design work was begun on a new Federal Reserve communications system to support payments systems in the 1980's.

EXAMINATION

The Board's Division of Federal Reserve Bank Operations examined the 12 Federal Reserve Banks and their 25 branches during 1979, as required by section 21 of the Federal Reserve Act.

In conjunction with the examination of the Federal Reserve Bank of New York, the Board's examiners audited accounts and holdings related to the System Open Market Account and the foreign currency operations conducted by that Bank in accordance with policies formulated by the Federal Open Market Committee, and furnished copies of these reports to the Committee. The procedures followed by the Board's examiners were surveyed and appraised by a private firm of certified public accountants, pursuant to the policy of having such reviews made annually.

EARNINGS AND EXPENSES

The accompanying table summarizes the earnings, expenses, and distribution of net earnings of the Federal Reserve Banks for 1979 and 1978.

Current earnings of $10,310 million in 1979 were 21.9 percent higher than in 1978. The principal changes were increases of $1,705 million on U.S. government obligations, $75 million on loans, and $67 million on foreign currencies.

Current expenses were $694 million, or 6.3 percent more than in 1978. Assessments for expenditures of the Board of Governors amounted to $51 million.

The profit and loss account showed a net deduction of $151 million, primarily because of net losses of $153.5 million on sales of U.S. government securities and $3.7 million on foreign exchange operations.

Statutory dividends to member banks totaled $67 million, $4 million more than in 1978. This rise reflected an increase in the capital and surplus of member banks and a consequent increase in the paid-in capital stock of the Federal Reserve Banks.

Payments to the Treasury as interest on Federal Reserve notes totaled $9,279 million for the year, compared with $7,006 million in 1978. This amount consists of all net earnings after dividends and the amount necessary to bring surplus to the level of paid-in capital.

A detailed statement of the earnings and expenses of each Federal Reserve Bank during 1979 is shown in table 6 and a condensed historical statement in table 7, in the Statistical Tables section of this REPORT. A detailed statement of assessments and expenditures of the Board of Governors appears in "Financial Statements," pages 301–05.

Earnings, Expenses, and Distribution of Net Earnings of Federal Reserve Banks, 1979 and 1978

Thousands of dollars

Item	1979	1978
Current earnings	10,310,148	8,455,390
Current expenses	693,559	652,617
Current net earnings	9,616,589	7,802,773
Net deduction from current net earnings	151,148	633,123
Assessments for expenditures of Board of Governors	50,530	53,322
Net earnings before payments to U.S. Treasury	9,414,911	7,116,328
Dividends paid	67,194	63,280
Payments to U.S. Treasury (interest on Federal Reserve notes)	9,278,576	7,005,780
Transferred to surplus	69,141	47,268

FEDERAL RESERVE BANK PREMISES

During 1979 the Board of Governors authorized construction of a new building for the Baltimore Branch. With approval of the Board, the Jacksonville Branch acquired property for a future building site; properties adjacent to the Federal Reserve Bank of Kansas City and to the Little Rock Branch were acquired for future expansion; and the Federal Reserve Bank of Boston sold its vacated building and property.

Table 8 in the Statistical Tables section of this REPORT shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks, and of real estate acquired for banking-house purposes.

HOLDINGS OF LOANS AND SECURITIES

The accompanying table shows holdings, earnings, and average interest rates on loans and securities of the Federal Reserve Banks during the past three years.

Average daily holdings of loans and securities during 1979 amounted to $119,134 million, an increase of $3,843 million over 1978. Holdings of U.S. government securities increased $3,354 million; loans, $462 million; and acceptances, $27 million.

The average rates of interest on holdings increased from 7.33 to 8.57 percent on U.S. government securities, from 7.58 to 10.54 percent on loans, and from 7.85 to 10.86 percent on acceptances.

Loans and Securities of Federal Reserve Banks, 1977–79

Item and year	Total	U.S. government securities [1]	Loans	Acceptances
	Millions of dollars			
Average daily holdings [2]				
1977	104,704	104,002	465	237
1978	115,291	114,210	876	205
1979	119,134	117,564	1,338	232
Earnings				
1977	6,859	6,820	26	13
1978	8,449	8,367	66	16
1979	10,237	10,071	141	25
	Percent			
Average rate of interest				
1977	6.55	6.56	5.68	5.27
1978	7.33	7.33	7.58	7.85
1979	8.59	8.57	10.54	10.86

1. Includes federal agency obligations.
2. Based on holdings at opening of business.

LOAN GUARANTEES FOR DEFENSE PRODUCTION

Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force; the Defense Logistics Agency of the Department of Defense; the Departments of Commerce, Interior, Agriculture, and Energy; the General Services Administration; the National Aeronautics and Space Administration; and the Nuclear Regulatory Commission are authorized to guarantee loans for defense production that are made by commercial banks and other private financing institutions. The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies under the Board's Regulation V.

As of December 31, 1979, only two guaranteed loans, totaling $957,333, were outstanding. Of that amount, $4,465 was guaranteed.

On February 12, 1979, the Board of Governors revised the interest rate and guarantee structures that applied to loan guarantees for defense production. The maximum rate was changed from a fixed one to the rate that an institution currently charges its most creditworthy business customers for loans of comparable maturity, unless the governmental guarantor decides that a particular loan that bears a higher interest rate is necessary for the purpose of the Defense Production Act of 1950.

VOLUME AND COST OF OPERATIONS

Table 9 in the Statistical Tables section of this REPORT shows the volume of operations in the principal departments of the Federal Reserve Banks for 1976-79, and table 10 shows the cost of the larger operations of the Reserve Banks.

The number of pieces of paper money received and counted totaled 8.8 billion, an increase of 3.5 percent over 1978, and amounted to $93.1 billion. The number of checks handled rose by 6.4 percent to 15.9 billion. Issues, redemptions, and exchanges of U.S. government securities amounted to $8,279 billion, an increase of 3 percent. Transfers of funds through the Federal Reserve Banks increased by 22 percent to 35 million transfers, or $64 trillion in value.

Board of Governors

FINANCIAL STATEMENTS

The accounts of the Board for the years 1979 and 1978 were examined by Arthur Andersen & Co., independent public accountants.

AUDITORS' REPORT

Board of Governors of the
Federal Reserve System
Washington, D.C.

We have examined the balance sheets of the Board of Governors of the Federal Reserve System as of December 31, 1979 and 1978, and the related statements of assessments and expenses and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Board of Governors of the Federal Reserve System as of December 31, 1979 and 1978, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Washington, D.C.,
February 20, 1980.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS

ASSETS	December 31 1979	1978
OPERATING FUND:		
Cash	$ 1,771,762	$ 4,797,310
Miscellaneous receivables and advances	586,417	360,095
Stockroom and cafeteria inventories, at lower of cost (first-in, first-out) or market	126,984	155,543
Total operating fund	2,485,163	5,312,948
PROPERTY FUND, at cost (Notes 1 and 4):		
Land and improvements	1,297,829	1,299,884
Buildings	60,162,893	59,223,136
Furniture and equipment	7,319,583	6,753,431
Computer equipment	3,616,332	3,476,832
Total property fund	72,396,637	70,753,283
	$74,881,800	$76,066,231

LIABILITIES AND FUND BALANCES	1979	1978
OPERATING FUND:		
Liabilities—		
Accounts payable	$ 1,845,996	$ 2,872,392
Accrued payroll and related taxes	1,825,760	1,562,912
	3,671,756	4,435,304
Commitments and contingencies (Notes 1, 2 and 4)		
Fund balance (Note 1)—		
Balance, beginning of year	877,644	2,189,338
Expenses in excess of assessments	(2,064,237)	(1,311,694)
Balance, end of year	(1,186,593)	877,644
Total operating fund	2,485,163	5,312,948
PROPERTY FUND (Note 1):		
Fund balance—		
Balance, beginning of year	70,753,283	63,772,559
Additions—at cost	1,842,978	8,688,619
Disposals—at cost	(199,624)	(1,707,895)
Total property fund	72,396,637	70,753,283
	$74,881,800	$76,066,231

The accompanying notes are an integral part of these balance sheets.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF ASSESSMENTS AND EXPENSES

	Year ended December 31	
	1979	1978
ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS (Note 1):		
For Board expenses and property additions	$ 50,529,700	$ 53,321,700
For expenditures made on behalf of the Federal Reserve Banks for printing, issuance and redemption of Federal Reserve notes	71,600,273	60,454,967
Total assessments	122,129,973	113,776,667
EXPENSES (Note 1):		
Board expenses—		
Salaries	33,572,060	31,212,936
Retirement and insurance contributions (Note 3)	8,038,006	6,313,145
Travel expenses	1,300,277	1,174,888
Professional fees	509,283	564,501
Contractual services	649,130	492,689
Printing and binding, net	1,420,993	1,117,575
Equipment, office space and other rentals (Note 2)	1,199,560	1,687,813
Telephone and telegraph	658,307	683,049
Postage	619,523	415,660
Stationery, office and other supplies	487,532	405,986
Heat, light and power	925,294	877,116
Cafeteria operations, net	351,132	305,653
Repairs and maintenance	507,779	424,402
Books and subscriptions	145,794	130,318
Miscellaneous	419,377	227,395
	50,804,047	46,033,126
Board property additions, net of recoveries on disposals of $53,088 in 1979 and $88,351 in 1978 (Note 1)	1,789,890	8,600,268
	52,593,937	54,633,394
Expenditures for printing, issuance and redemption of Federal Reserve notes on behalf of the Federal Reserve Banks (Note 1)	71,600,273	60,454,967
Total expenses	124,194,210	115,088,361
EXPENSES IN EXCESS OF ASSESSMENTS	$ (2,064,237)	$ (1,311,694)

The accompanying notes are an integral part of these statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1979	1978
SOURCES OF FUNDS:		
Assessments levied for Board expenses and property additions	$ 50,529,700	$ 53,321,700
Assessments levied for expenditures made on behalf of the Federal Reserve Banks	71,600,273	60,454,967
Recoveries from disposals of property	53,088	88,351
Total sources	122,183,061	113,865,018
APPLICATIONS OF FUNDS:		
Board expenses	50,804,047	46,033,126
Expenditures for printing, issuance and redemption of Federal Reserve notes on behalf of the Federal Reserve Banks	71,600,273	60,454,967
Additions to property—		
Land and improvements	470	88,970
Buildings	939,757	6,511,319
Furniture and equipment	762,751	1,953,620
Computer	140,000	134,710
	1,842,978	8,688,619
Decrease (increase) in liabilities	763,548	(711,222)
Increase (decrease) in miscellaneous receivables, advances and inventories	197,763	(500,597)
Total applications	125,208,609	113,964,893
DECREASE IN CASH	(3,025,548)	(99,875)
CASH BALANCE, beginning of year	4,797,310	4,897,185
CASH BALANCE, end of year	$ 1,771,762	$ 4,797,310

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1979 AND 1978

(1) Significant Accounting Policies

In preparing its financial statements, the Board has applied accounting principles which, in its opinion, best reflect its financial position and results of operations. These accounting principles include certain principles which are generally accepted for organizations in the private sector and also certain principles which are generally accepted for governmental units. A summary of significant accounting policies is shown below.

Accounting for Assessments, Board Expenses and Property Additions—Assessments made by the Board on the Federal Reserve Banks for Board expenses and additions to property are calculated based upon expected cash needs and are accrued when assessed. Board expenses and property additions are recorded on the accrual basis of accounting.

Accounting for Assessments and Expenditures Made on Behalf of the Federal Reserve Banks—Assessments and expenditures made on behalf of the Federal Reserve Banks for the printing, issuance and redemption of Federal Reserve notes are recorded on the cash basis. This treatment produces results which are not materially different from those which would have been produced using the accrual basis of accounting.

Accounting for Property—The Board does not charge depreciation as an operating expense. Property additions are charged to expense in the Operating Fund in the year of acquisition; recoveries on the disposal of property are recorded as a reduction of expense in the Operating Fund in the year of disposal. When property is acquired or sold, the property accounts in the Property Fund are increased or reduced at cost, with a corresponding increase or decrease in the Property Fund balance.

Accounting for Employee Annual Leave—The Board does not accrue for salary expense related to employee annual leave that has been earned and would be paid if not taken prior to termination of employment. As of December 31, 1979, vested employee annual leave is approximately $2,043,000.

(2) Leases

The Board leases office and computer equipment and office and storage space under leases which may generally be terminated within one year. At December 31, 1979, fixed future rental commitments are $641,500 for 1980.

(3) Retirement Plans

There are two major retirement programs for employees of the Board. Approximately 87 percent of the employees are covered by the Federal Reserve Board Plan. All new members of the staff who do not come directly from a position in the government are covered by this Plan. The second Plan, the Civil Service Retirement Plan, covers all new employees who come directly from government service. Employee contributions are the same percentage of salary under both Plans, and benefits are similar, being based upon the Civil Service Plan.

Under the Civil Service Plan, Board contributions match employee payroll deductions. Under the Federal Reserve Board Plan, the Board funds currently all normal costs and all past service costs, as actuarially determined.

Additionally, employees of the Board participate in the Federal Reserve System's Thrift Plan. Under this Plan, the Board adds a fixed percentage to allowable employee savings.

Board contributions to all retirement plans totaled approximately $7,404,000 in 1979 and $5,691,000 in 1978.

(4) Contingent Liabilities

The Board has been named as a defendant in litigation involving challenges to, or appeals from, actions or proposed actions of the Board pursuant to statutory requirement or authorization. Such lawsuits generally seek injunctive or declaratory relief against the Board rather than monetary awards. It is the opinion of Board counsel that lawsuits involving monetary awards do not represent a material liability to the Board.

The Board does not maintain insurance against loss of its buildings and furniture and equipment from fire or other casualties. Coverage for other customarily insured risks, such as workers' compensation insurance, builders' risk and comprehensive general liability insurance, is carried by the Board.

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Statistical Tables

[illegible] Detailed Statement of Condition of All Federal Reserve Banks Combined, December 31, 1975

Thousands of dollars

ASSETS

Gold certificates on hand			1,278	
Gold certificates due from U.S. Treasury			11,110,266	
Total gold certificate account				**11,111,544**
Special drawing rights certificate account				**1,800,000**
Coin				**411,841**
Loans to member banks, by type of security				
U.S. government and agency obligations		397,276		
Other eligible paper		461,463		
Other paper, sec. 10(b)		594,016	1,452,755	
Loans to others				
Total loans			**1,452,755**	
Acceptances held under repurchase agreement			**703,548**	
Federal agency obligations				
Bought outright			**8,215,577**	
Held under repurchase agreement			**493,905**	
U.S. government securities				
Bought outright				
Bills	**45,243,530**			
Notes	**56,494,487**			
Bonds	**14,552,645**			
Total bought outright		**116,290,662**		
Held under repurchase agreement		**1,167,670**		
Total U.S. government securities			**117,458,332**	
Total loans and securities				**128,324,117**
Cash items in process of collection				
Transit items			12,333,670	
Exchanges for clearing house			330,542	
Other cash items			3,030,430	
Total cash items in process of collection				**15,694,642**
Bank premises				
Land			74,927	
Buildings (including vaults)		255,242		
Building machinery and equipment		116,117		
Construction account		110,660		
Total bank premises		482,019		
Less depreciation allowance		147,665	334,354	
Bank premises, net				**409,281**
Other assets				
Furniture and equipment		114,399		
Less depreciation		29,284		
Total furniture and equipment, net			85,115	
Denominated in foreign currencies[1]			2,513,897	
Interest accrued			1,617,273	
Premium on securities			93,127	
Real estate acquired for banking-house purposes			27,393	
Suspense account			646,602	
Overdrafts			86,451	
Prepaid expenses			45,234	
All other			78,426	
Total other assets				**5,193,518**
TOTAL ASSETS				**162,944,943**

LIABILITIES

Federal Reserve notes			
Outstanding (issued to Federal Reserve Banks)		125,301,011	
Less held by Federal Reserve Banks		11,946,435	
Total Federal Reserve notes, net			**113,354,576**
Deposits			
Reserve accounts			
Member banks	**29,520,878**		
Edge Act corporations	**265,189**		
U.S. agencies and branches of foreign banks	**6,689**		
Total		**29,792,756**	
U.S. Treasury—General account		**4,075,336**	
Foreign		**428,516**	
Other deposits			
Nonmember bank—Clearing accounts	3,112		
Officers' and certified checks	23,045		
International organizations	384,211		
Secretary of Treasury special account	30,161		
Government-sponsored agency accounts	52,179		
All other[2]	919,709		
Total other deposits		**1,412,417**	
Total deposits			**35,709,025**
Deferred availability cash items			**8,932,139**
Other liabilities			
Exchange-translation account		162,777	
Unearned discount		752	
Discount on securities		1,990,402	
Sundry items payable		22,529	
Suspense account		464,665	
All other		17,256	
Total other liabilities			**2,658,381**
TOTAL LIABILITIES			**160,654,121**

CAPITAL ACCOUNTS

Capital paid in	**1,145,411**
Surplus	**1,145,411**
Other capital accounts[3]	
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	**162,944,943**

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1. Includes $30.9 million in U.S. government securities held under repurchase agreement against receipt of foreign currencies and $2,106.8 million foreign currencies warehoused for the U.S. Treasury.

2. In closing out the other capital accounts at year-end, the Reserve Bank earnings that are payable to the Treasury for December are included in this account pending payment.

3. During the year, this item includes the net earnings, expenses, profit and loss items, and accrued dividends, which are closed out on Dec. 31; see Table 7 in the Statistical Tables section of this REPORT.

NOTE. Amounts in boldface type indicate items in the Board's weekly statement of condition of the Federal Reserve Banks.

Statement of Condition of Each Federal Reserve Bank, December 31, 1979 and 1978

Millions of dollars

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978
ASSETS												
Gold certificate account	11,112	11,671	992	760	2,841	3,206	924	598	646	921	1,293	974
Special drawing rights certificate account	1,800	1,300	93	67	459	330	91	69	149	112	161	116
Coin	403	274	25	17	21	21	21	15	42	33	45	23
Loans												
Secured by U.S. government and agency obligations	428	717	31	30	54	80	16	68	55	31	61	24
Other	1,026	455	6	0	457	231	0	10	0	0	104	24
Acceptances												
Bought outright	0	0	0	0	0	0	0	0	0	0	0	0
Held under repurchase agreement	704	587	0	0	704	587	0	0	0	0	0	0
Federal agency obligations												
Bought outright	8,216	7,896	397	367	2,025	1,921	393	395	660	657	673	647
Held under repurchase agreement	493	133	0	0	493	133	0	0	0	0	0	0
U.S. government securities												
Bought outright[1]	116,291	109,478	5,625	5,095	28,664	26,632	5,560	5,483	9,343	9,111	9,524	8,965
Held under repurchase agreement	1,167	1,084	0	0	1,167	1,084	0	0	0	0	0	0
Total loans and securities	128,325	120,350	6,059	5,492	33,564	30,668	5,969	5,956	10,058	9,799	10,362	9,660
Cash items in process of collection	15,694	15,084	457	566	2,090	1,360	440	631	662	808	2,822	2,432
Bank premises	408	394	103	106	14	10	54	55	23	23	83	80
Other assets												
Denominated in foreign currencies[2]	2,483	1,606	77	50	646	416	102	69	211	136	132	87
All other	2,722	2,543	164	104	575	624	160	168	160	162	202	183
Interdistrict Settlement Account	0	0	−871	−525	+1,266	+854	−739	−637	−628	−438	−362	−262
TOTAL ASSETS	162,947	153,222	7,099	6,637	41,476	37,489	7,022	6,924	11,323	11,556	14,738	13,293

LIABILITIES												
Federal Reserve notes	113.355	103.325	5.767	5.308	29.935	26.335	5.457	5.198	9.027	8.551	10.304	9.249
Deposits												
Reserve accounts[3]	29.792	31.223	661	666	7.321	6.884	825	1.081	1.101	1.798	1.308	1.781
U.S. Treasury—General account	4.075	4.196	258	222	1.252	1.033	249	208	358	388	316	248
Foreign—Official accounts	429	368	9	6	207	217	12	9	26	17	16	11
All other	1.412	1.256	42	23	719	815	45	21	73	36	74	53
Total deposits	35.708	37.043	970	917	9.499	8.949	1.131	1.319	1.558	2.239	1.714	2.093
Deferred-availability cash items	8.927	8.579	152	270	711	920	239	234	376	446	2.431	1.680
Other liabilities and accrued dividends	2.667	2.119	144	76	751	725	105	85	172	136	173	157
TOTAL LIABILITIES	160.657	151.066	7.033	6.571	40.896	36.929	6.932	6.836	11.133	11.372	14.622	13.179
CAPITAL ACCOUNTS												
Capital paid in	1.145	1.078	33	33	290	280	45	44	95	92	58	57
Surplus	1.145	1.078	33	33	290	280	45	44	95	92	58	57
Other capital accounts	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	162.947	153.222	7.099	6.637	41.476	37.489	7.022	6.924	11.323	11.556	14.738	13.293
FEDERAL RESERVE NOTE STATEMENT												
Federal Reserve notes												
Issued to Federal Reserve Bank by Federal Reserve Agent and outstanding	125.301	112.836	6.405	6.068	32.636	28.269	6.142	6.165	9.615	9.077	11.022	9.925
Less held by issuing Bank, and forwarded for redemption	11.946	9.511	638	760	2.701	1.934	685	967	588	526	718	676
Federal Reserve notes, net[4]	113.355	103.325	5.767	5.308	29.935	26.335	5.457	5.198	9.027	8.551	10.304	9.249
Collateral held by Federal Reserve Agent for notes issued to Bank												
Gold certificate account	11.112	11.671	992	760	2.841	3.206	924	598	646	921	1.293	974
Special drawing rights certificate account	1.800	1.300	93	67	459	330	91	69	149	112	161	116
Eligible paper	894	907	31	30	318	175	14	71	54	31	131	44
U.S. government and agency securities	111.495	98.958	5.289	5.211[5]	29.018	24.558	5.113	5.427	8.766	8.013	9.437	8.791
TOTAL COLLATERAL	125.301	112.836	6.405	6.068	32.636	28.269	6.142	6.165	9.615	9.077	11.022	9.925

For notes see end of table.

Millions of dollars

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978	1979	1978
ASSETS														
Gold certificate account	525	518	1,591	1,763	474	466	232	231	473	425	451	509	670	1,300
Special drawing rights certificate account	64	51	300	215	79	55	32	28	75	48	86	57	211	152
Coin	39	32	31	14	33	22	17	11	49	38	29	17	51	31
Loans														
Secured by U.S. government and agency obligations	11	104	73	59	14	32	21	8	28	20	27	46	37	215
Other	111	50	78	8	47	30	10	2	22	15	107	47	84	38
Acceptances														
Bought outright	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Held under repurchase agreement	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal agency obligations														
Bought outright	340	357	1,304	1,259	349	322	183	190	363	324	448	410	1,081	1,047
Held under repurchase agreement	0	0	0	0	0	0	0	0	0	0	0	0	0	0
U.S. government securities														
Bought outright[1]	4,819	4,952	18,454	17,460	4,948	4,470	2,585	2,627	5,134	4,486	6,336	5,683	15,299	14,514[6]
Held under repurchase agreement	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total loans and securities	5,281	5,463	19,909	18,786	5,358	4,854	2,799	2,827	5,547	4,845	6,918	6,186	16,501	15,814
Cash items in process of collection	1,563	1,879	2,114	1,630	690	583	994	802	1,511	1,292	1,519	1,066	832	2,035
Bank premises	31	22	16	16	13	13	28	29	20	19	12	12	11	9
Other assets														
Denominated in foreign currencies[2]	186	120	375	246	77	50	79	48	104	68	144	91	350	225
All other	151	190	395	337	95	105	80	56	135	83	137	126	468	405
Interdistrict Settlement Account	−446	−740	−769	+184	−346	+68	−765	−434	+366	+385	+329	+439	+2,965	+1,106
TOTAL ASSETS	7,394	7,535	23,962	23,191	6,473	6,216	3,496	3,598	8,280	7,203	9,625	8,503	22,059	21,077

LIABILITIES														
Federal Reserve notes	3,550	3,682	18,505	17,190	4,748	4,540	1,909	1,854	5,000	4,321	5,959	4,964	13,194	12,133
Deposits														
Reserve accounts[3]	2,151	2,099	3,689	4,091	840	888	675	866	1,459	1,485	2,471	2,481	7,291	7,103
U.S. Treasury—General account	230	229	284	428	225	246	175	183	306	255	85	162	337	594
Foreign	23	15	45	31	9	6	10	6	13	9	17	12	42	29
All other	33	57	150	107	40	20	22	8	42	18	51	34	121	64
Total deposits	2,437	2,400	4,168	4,657	1,114	1,160	882	1,063	1,820	1,767	2,624	2,689	7,791	7,790
Deferred-availability cash items	1,135	1,184	590	758	457	380	572	560	1,264	945	798	643	202	559
Other liabilities and accrued dividends	98	107	363	260	84	70	61	53	98	78	110	81	508	291
TOTAL LIABILITIES	7,220	7,373	23,626	22,865	6,403	6,150	3,424	3,530	8,182	7,111	9,491	8,377	21,695	20,773
CAPITAL ACCOUNTS														
Capital paid in	87	81	168	163	35	33	36	34	49	46	67	63	182	152
Surplus	87	81	168	163	35	33	36	34	49	46	67	63	182	152
Other capital accounts	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	7,394	7,535	23,962	23,191	6,473	6,216	3,496	3,598	8,280	7,203	9,625	8,503	22,059	21,077
FEDERAL RESERVE NOTE STATEMENT														
Federal Reserve notes														
Issued to Federal Reserve Bank by Federal Reserve Agent and outstanding	5,242	4,736	19,535	17,722	5,289	4,891	2,530	2,313	5,803	4,780	6,551	5,683	14,531	13,207
Less held by issuing Bank, and forwarded for redemption	1,692	1,054	1,030	532	541	351	621	459	803	459	592	719	1,337	1,074
Federal Reserve notes, net[4]	3,550	3,682	18,505	17,190	4,748	4,540	1,909	1,854	5,000	4,321	5,959	4,964	13,194	12,133
Collateral held by Federal Reserve Agent for notes issued to Bank														
Gold certificate account	525	518	1,591	1,763	474	466	232	231	473	425	451	509	670	1,300
Special drawing rights certificate account	64	51	300	215	79	55	32	28	75	48	86	57	211	152
Eligible paper	9	128	89	59	51	46	24	8	42	26	94	75	37	214
U.S. government and agency securities	4,644	4,039	17,555	15,685	4,685	4,324	2,242	2,046	5,213	4,281	5,920	5,042	13,613	11,541
TOTAL COLLATERAL	5,242	4,736	19,535	17,722	5,289	4,891	2,530	2,313	5,803	4,780	6,551	5,683	14,531	13,207

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1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* any securities sold and scheduled to be bought back under matched sale-purchase transactions.
2. Beginning Dec. 29, 1978, such assets are revalued monthly at market exchange rates.
3. Includes reserves of member banks, Edge Act corporations, and U.S. agencies and branches of foreign banks.
4. Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve Banks other than the issuing Bank.
5. Includes securities borrowed from other Federal Reserve Banks.
6. Includes securities loaned to other Federal Reserve Banks.

Federal Reserve Bank Holdings of U.S. Government and Federal Agency Securities, December 31, 1977–79

Millions of dollars

Description of issue	Coupon (per cent)	December 31			Increase or decrease (−)	
		1979	1978	1977	1979	1978
U.S. government securities—Total	......	**117,458**	**110,562**	**102,819**	**6,896**	**7,743**
Held outright [1]						
Treasury bills—Total	......	45,244	42,159	41,560	3,085	598
Within 3 months	......	23,093	20,661	20,106	2,432	555
3–6 months	......	10,706	14,911	15,690	−4,205	−779
After 6 months	......	11,445	6,586	5,765	4,859	821
Treasury notes—Total	......	56,494	54,855	50,509	1,639	4,346
Dec. 31, 1977 —P	7¼	......	......	328	......	−328
Jan. 31, 1978 —J	6⅜	......	......	272	......	−272
Feb. 15, 1978 —A	6¼	......	......	2,650	......	−2,650
Feb. 28, 1978 —G	8	......	......	53	......	−53
Mar. 31, 1978 —K	6¾	......	......	312	......	−312
Apr. 30, 1978 —L	6½	......	......	391	......	−391
May 15, 1978 —D	7⅛	......	......	953	......	−953
F	7⅞	......	......	1,539	......	−1,539
May 31, 1978 —M	7⅛	......	......	175	......	−175
June 30, 1978 —N	6⅞	......	......	771	......	−771
July 31, 1978 —P	6⅞	......	......	259	......	−259
Aug. 15, 1978 —C	8¾	......	......	633	......	−633
E	7⅝	......	......	2,571	......	−2,571
Aug. 31, 1978 —Q	6⅝	......	......	173	......	−173
Sept. 30, 1978 —R	6¼	......	......	415	......	−415
Oct. 31, 1978 —S	5⅞	......	......	192	......	−192
Nov. 15, 1978 —B	6	......	......	2,468	......	−2,468
Nov. 30, 1978 —T	5¾	......	......	234	......	234
Dec. 31, 1978 —H	8⅛	......	244	177	−244	67
U	5¼	......	643	446	−643	197
Jan. 31, 1979 —L	5⅞	......	151	88	−151	63
Feb. 15, 1979 —H	7	......	1,731	1,724	−1,731	7
Feb. 28, 1979 —M	5⅞	......	368	308	−368	60
Mar. 31, 1979 —N	6	......	640	570	−640	70
Apr. 30, 1979 —P	5⅞	......	159	118	−159	41
May 15, 1979 —D	7⅞	......	550	538	−550	12
May 31, 1979 —Q	6⅛	......	239	209	−239	30
June 30, 1979 —E	7¾	......	157	119	−157	38
R	6⅛	......	291	265	−291	26
July 31, 1979 —S	6¼	......	159	111	−159	48
Aug. 15, 1979 —A	6¼	......	669	630	−669	39
J	6⅞	......	880	838	−880	42
Aug. 31, 1979 —T	6⅝	......	440	210	−440	230
Sept. 30, 1979 —F	8½	......	230	222	−230	8
U	6⅝	......	333	248	−333	85
Oct. 31, 1979 —V	7¼	......	455	248	−455	207
Nov. 15, 1979 —B	6⅝	......	890	890	−890	0
K	6¼	......	250	228	−250	22
C	7	......	366	362	−366	4
Nov. 30, 1979 —W	7⅛	......	475	261	−475	214
Dec. 31, 1979 —G	7½	......	137	107	−137	30
X	7⅛	......	568	0	−568	568
Jan. 31, 1980 —K	7½	403	365	0	38	365
Feb. 15, 1980 —G	6½	1,512	1,461	1,452	51	9
Feb. 29, 1980 —L	7⅝	399	334	0	65	334
Mar. 31, 1980 —C	7½	809	724	167	85	557
Apr. 30, 1980 —N	7¾	457	437	0	20	437
May 15, 1980 —A	6⅞	5,273	5,272	5,267	1	5
May 31, 1980 —P	8	177	177	0	0	177
June 30, 1980 —D	7⅝	322	294	288	28	6
Q	8¼	859	858	0	1	858
July 31, 1980 —R	8½	714	699	0	15	699
Aug. 15, 1980 —B	9	2,435	2,435	2,427	0	8
H	6¾	688	657	489	31	168
Aug. 31, 1980 —S	8⅜	461	416	0	45	416
Sept. 30, 1980 —E	6⅞	153	153	141	0	12
T	8⅝	725	686	0	39	686
Oct. 31, 1980 —U	8⅞	354	309	0	45	309
Nov. 15, 1980 —J	7⅛	700	693	658	7	35
Nov. 30, 1980 —V	9¼	307	250	0	57	250
Dec. 31, 1980 —F	5⅞	33	33	33	0	0
W	9⅞	538	0	0	538	0
Jan. 31, 1981 —P	9¾	383	0	0	383	0
Feb. 15, 1981 —A	7	351	351	349	0	2
C	7⅜	1,074	1,007	914	67	93
Feb. 28, 1981 —Q	9¾	397	0	0	397	0
Mar. 31, 1981 —H	6⅞	218	203	55	15	148
R	9⅝	698	0	0	698	0

For notes see end of table.

Description of issue	Coupon (per cent)	December 31			Increase or decrease (−	
		1979	1978	1977	1979	1978
Treasury notes—Cont.						
Apr. 30, 1981 —S	9¾	159	0	0	159	0
May 15, 1981 —D	7⅜	185	182	175	3	7
M	7½	1,041	1,034	0	7	1,034
May 31, 1981 —T	9¾	313	0	0	313	0
June 30, 1981 —J	6¾	80	70	67	10	3
U	9⅛	306	0	0	306	0
July 31, 1981 —V	9⅜	311	0	0	311	0
Aug. 15, 1981 —F	7⅝	343	297	241	46	56
N	8⅜	1,301	1,297	0	4	1,297
Aug. 31, 1981 —W	9⅝	563	0	0	563	0
Sept. 30, 1981 —K	6¾	131	72	48	59	24
X	10⅛	405	0	0	405	0
Oct. 31, 1981 —Y	12⅝	527	0	0	527	0
Nov. 15, 1981 —B	7¾	1,600	1,597	1,591	3	6
G	7	116	113	83	3	30
Nov. 30, 1981 —Z	12⅛	594	0	0	594	0
Dec. 31, 1981 —L	7¼	167	124	13	43	111
AB	11⅜	571	0	0	571	0
Feb. 15, 1982 —D	6⅛	59	56	35	3	21
Mar. 31, 1982 —G	7⅞	245	235	0	10	235
May 15, 1982 —A	8	1,447	1,444	1,439	3	5
E	7	53	30	14	23	16
K	9¼	1,018	1,018	0	0	1,018
June 30, 1982 —H	8¼	115	93	0	22	93
Aug. 15, 1982 —B	8⅛	1,162	1,161	1,110	1	51
M	9	1,068	0	0	1,068	0
Sept. 30, 1982 —J	8⅜	64	62	0	2	62
Nov. 15, 1982 —C	7⅞	770	754	715	16	39
F	7⅛	227	209	4	18	205
Dec. 31, 1982 —L	9⅜	459	0	0	459	0
Feb. 15, 1983 —A	8	2,138	2,136	2,101	2	35
Mar. 31, 1983 —D	9¼	9	0	0	9	0
May 15, 1983 —C	7⅞	95	89	0	6	89
G	11⅝	837	0	0	837	0
June 30, 1983 —E	8⅞	408	0	0	408	0
Sept. 30, 1983 —F	9¾	284	0	0	284	0
Nov. 15, 1983 —B	7	101	95	95	6	0
Dec. 31, 1983 —H	10½	156	0	0	156	0
Feb. 15, 1984 —A	7¼	3,913	3,900	3,659	13	241
May 15, 1984 —C	9¼	69	0	0	69	0
Aug. 15, 1984 —B	7¼	385	372	337	13	35
Feb. 15, 1985 —A	8	1,448	1,448	0	0	1,448
May 15, 1985 —C	10⅜	38	0	0	38	0
Aug. 15, 1985 —B	8¼	1,624	1,618	0	6	1,618
May 15, 1986 —A	7⅞	1,137	1,086	852	51	234
Aug. 15, 1986 —B	8	1,987	1,978	1,941	9	37
Feb. 15, 1987 —B	9	1,657	0	0	1,657	0
Nov. 15, 1987 —A	7⅝	616	616	448	0	168
May 15, 1988 —A	8¼	1,751	1,744	0	7	1,744
Nov. 15, 1988 —B	8¾	1,130	1,087	0	43	1,087
May 15, 1989 —A	9¼	451	0	0	451	0
Nov. 15, 1989 —B	10¾	422	0	0	422	0
Treasury bonds—Total		14,553	12,465	8,848	2,088	3,617
1975-85—May	4¼	156	156	156	0	0
1978-83—June	3¼	87	87	87	0	0
1980—Feb	4	266	266	266	0	0
Nov	3½	74	74	74	0	0
1981—Aug	7	123	123	123	0	0
1982—Feb	6⅜	386	371	364	15	7
1984—Aug	6⅜	355	355	355	0	0
1985—May	3¼	47	47	47	0	0
1986—Nov	6⅛	310	310	310	0	0
1987-92—Aug	4¼	509	509	509	0	0
1988-93—Feb	4	24	24	24	0	0
Aug	7½	384	380	380	4	0
1989-94—May	4⅛	77	77	77	0	0
1990—Feb	3½	84	84	84	0	0
May	8¼	342	342	285	0	56
1992—Aug	7¼	92	91	76	1	15
1993—Feb	6¾	70	70	70	0	0
Feb	7⅞	136	127	0	9	127
Aug	8⅝	118	61	0	57	61
Nov	8⅝	144	121	0	23	121
1993-98—May	7	157	157	157	0	0

For notes see end of table.

Millions of dollars

Description of issue	Coupon (per cent)	December 31			Increase or decrease (–)	
		1979	1978	1977	1979	1978
1994-99—May	8½	1,004	999	955	5	44
1994—Feb	9	60	0	0	60	0
Aug	8¾	32	0	0	32	0
Nov	10⅛	0	0	0	0	0
1995—Feb	3	2	2	2	0	0
1995-2000—Feb	7⅞	566	562	517	4	45
Aug	8⅜	2,042	2,004	902	38	1,102
1996-2001—Aug	8	488	480	430	8	50
1998—Nov	3½	31	31	31	0	0
2000-05—May	8¼	1,493	1,493	950	0	543
2002-07—Feb	7⅝	1,389	1,389	1,379	0	10
Nov	7⅞	265	265	240	0	25
2003-08—Aug	8⅜	747	747	0	0	747
Nov	8¾	1,534	661	0	873	661
2004-09—May	9⅛	633	0	0	633	0
Nov	10⅜	326	0	0	326	0
Held under RPs		1,168	1,084	1,901	84	–817
U.S. government securities—Total		**117,458**	**110,562**	**102,819**	**6,896**	**7,743**
Within 90 days		26,841	24,097	25,309	2,744	–1,212
91 days to 1 year		37,230	29,465	32,539	7,765	–3,074
1–5 years		27,864	31,608	27,516	–3,744	4,092
5–10 years		12,774	14,717	10,388	–1,943	4,329
Over 10 years		12,748	10,675	7,067	2,073	3,608
Federal agency obligations						
Held outright—Total		8,216	7,896	8,004	320	–108
Banks for Cooperatives		35	85	112	–50	–27
Export-Import Bank		16	69	106	–53	–37
Federal Farm Credit Banks		951	68	58	883	10
Federal Home Loan Banks		2,271	2,189	2,151	82	38
Federal Intermediate Credit Banks		97	466	465	–369	1
Federal Land Banks		1,163	1,377	1,352	–214	25
Farmers Home Administration		196	196	238	0	–42
Federal National Mortgage Association		3,237	3,196	3,266	41	–70
Government National Mortgage Association—PCs		83	83	87	0	–4
U.S. Postal Service		37	37	37	0	0
Washington Metropolitan Area Transit Authority		117	117	117	0	0
General Services Administration		14	14	14	0	0
Held under RPs		494	133	451	361	–318

1. Excludes securities sold under matched sale–purchase agreements, and securities held under repurchase agreements.

NOTE: Details may not add to totals because of rounding.

Millions of dollars

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1972		1973		1975		1977	
Sept. 12	38	Sept. 15	319	Mar. 15	820	Sept. 30	2,500
		16[1]	319	16[1]	820	Oct. 1	2,500
1973				17	832	2[1]	2,500
Aug. 15	351	1974		Aug. 5	656	3	2,500
Sept. 7	73	Nov. 6	131	6	965		
8	73			7	474	1979	
9[1]	73	1975		11	204	Mar. 31	2,600
10	42	Mar. 11	626	12	543		
11	485	12	1,043			Apr. 1[1]	2,600
12	169	13	315	13	399	2	
14	319	14	820	15	481	3	376

1. Sunday or holiday.

NOTE: Under authority of section 14(b) of the Federal Reserve Act.

Throughout the period shown the interest rate paid on such securities was ¼ percent below the prevailing discount rate of the Federal Reserve Bank of New York. For data for earlier years, beginning with 1942, see previous ANNUAL REPORT. No holdings on dates not shown.

Millions of dollars

Month	Outright transactions in U.S. government securities, by maturity (excluding matched sale–purchase transactions)								
	Treasury bills			Others within 1 year			1–5 years		
	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Exch., maturity shifts, or redemptions	Gross purchases	Gross sales	Exch. or maturity shifts
January	0	3,758	500	0	0	−673	0	0	673
February	0	228	400	48	0	−30	426	0	2,205
March	2,012	475	400	2,600	0	724	0	0	−724
April	1,721	100	600	0	0	−2,960	0	0	360
May	0	251	200	0	0	4,660	0	0	−5,209
June	518	623	0	42	0	1,152	0	0	−1,152
July	2,252	0	0	218	0	33	237	0	−33
August	2,351	380	0	57	0	1,526	699	0	−1,591
September	1,692	353	200	120	0	876	354	0	−876
October	861	780	300	28	0	−783	35	0	783
November	2,752	154	300	0	0	−937	0	0	222
December	2,464	378	0	90	0	−155	398	0	155
TOTAL	16,623	7,480	2,900	3,203	0	3,434	2,148	0	−5,187

Month	Outright transactions (continued)									Matched sale–purchase transactions (U.S. government securities)	
	5–10 years			Over 10 years			Total				
	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Redemptions	Gross sales	Gross purchases
January	0	0	0	0	0	0	0	3,758	500	64,691	60,750
February	134	0	−2,975	93	0	800	700	228	400	56,291	58,426
March	0	0	0	0	0	0	4,612	475	400	61,669	63,707
April	0	0	0	0	0	0	1,721	100	3,200	62,362	61,968
May	0	0	350	0	0	200	0	251	200	54,343	53,692
June	0	0	0	0	0	0	561	623	0	52,640	52,949
July	96	0	0	142	0	0	2,945	0	0	40,310	40,300
August	140	0	−240	81	0	305	3,327	380	0	35,159	35,480
September	73	0	0	87	0	0	2,326	353	200	41,395	41,583
October	0	0	0	0	0	0	924	780	300	58,656	58,671
November	0	0	400	0	0	314	2,752	154	300	45,204	45,979
December	81	0	0	51	0	0	3,084	378	0	53,681	49,738
TOTAL	523	0	−2,465	454	0	1,619	22,950	7,480	5,500	626,403	623,245

Month	Repurchase agreements (U.S. government securities)		Net change in U.S. Government securities	Federal agency obligations			Bankers acceptances, net		Net change[1]
				Outright		Repurchase agreements, net			
	Gross purchases	Gross sales		Gross purchases	Sales or redemptions		Outright	Repurchase agreements	
January	3,117	4,201	−9,283	0	389	−133	0	−587	−10,392
February	6,931	6,931	2,207	0	20	0	0	0	2,187
March	11,817	10,137	7,454	0	23	369	0	204	8,003
April	5,784	6,163	−2,352	0	*	−219	0	48	−2,524
May	2,188	3,488	−2,403	0	40	−149	0	−252	−2,844
June	15,531	12,226	3,552	371	33	826	0	1,400	6,115
July	18,464	19,690	1,708	482	0	−187	0	−241	1,761
August	10,539	12,226	1,582	0	*	−487	0	−684	412
September	10,850	10,380	2,431	0	18	947	0	578	3,937
October	10,599	11,336	−878	0	3	−1,042	0	−735	−2,658
November	4,303	3,869	3,507	0	*	917	0	−48	4,376
December	7,251	6,643	−629	0	5	−480	0	434	−679
TOTAL	107,374	107,291	6,896	853	533	361	0	116	7,693

1. Net change in U.S. government securities, federal agency obligations, and bankers acceptances.

*Less than $500,000

NOTE. Sales, redemptions, and negative figures reduce System holdings; all other figures increase them. Details may not add to totals because of rounding.

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
CURRENT EARNINGS													
Loans	140,966,212	7,349,117	16,363,688	11,015,195	7,083,266	13,256,414	11,007,843	24,582,030	8,530,599	6,356,440	9,453,210	13,324,291	12,644,119
Acceptances	25,190,562		25,190,562										
U.S. government securities	10,071,394,339	477,831,511	2,528,841,215	486,395,139	810,245,205	817,737,338	424,358,225	1,586,819,726	420,087,194	226,908,118	431,916,313	536,863,656	1,323,390,699
Foreign currencies	68,900,454	2,129,129	18,073,226	2,818,677	5,837,934	3,641,490	5,151,118	10,373,651	2,129,129	2,195,078	2,884,626	3,982,165	9,684,231
All other	3,696,839	45,726	2,438,326	9,136	82,703	152,311	203,508	222,897	141,185	104,853	136,970	116,308	42,916
TOTAL	10,310,148,406	487,355,483	2,590,907,017	500,238,147	823,249,108	834,787,553	440,720,694	1,621,998,304	430,888,107	235,564,489	444,391,119	554,286,420	1,345,761,965
CURRENT EXPENSES													
Salaries	346,984,400	23,070,372	79,984,986	16,986,726	21,833,984	26,908,651	31,578,705	43,215,417	17,400,245	13,900,988	22,553,689	17,673,326	31,877,311
Retirement and other benefits	97,311,442	6,866,789	21,460,133	5,123,905	6,130,505	7,424,119	8,531,490	12,106,230	5,202,800	3,615,266	6,435,158	4,702,603	9,712,444
Fees	4,488,414	318,360	1,229,620	227,877	335,130	371,645	236,431	284,058	293,621	238,478	236,864	231,805	484,525
Travel	9,768,267	557,241	1,494,793	308,652	783,719	807,843	1,021,777	1,054,329	497,969	562,732	949,432	597,960	1,131,820
Postage	13,029,935	632,048	2,156,111	496,242	715,173	1,074,970	998,398	1,266,798	972,289	922,213	1,584,476	672,794	1,538,423
Other shipping expenses	63,416,052	3,539,620	8,257,204	2,600,587	5,282,731	7,264,039	7,283,567	8,562,077	3,992,085	2,316,098	3,829,740	3,569,736	6,918,568
Communications	12,540,616	788,060	2,641,333	564,123	817,589	1,060,507	1,104,403	1,505,561	482,461	572,367	960,537	810,416	1,233,259
Materials and supplies	29,441,147	2,153,708	5,507,566	1,384,507	1,705,056	2,679,249	3,230,237	3,962,009	1,455,631	1,040,617	2,131,562	1,695,261	2,495,744
Bank premises													
Taxes on real estate	13,212,568	2,018,135	2,372,251	1,225,982	795,357	1,286,901	683,564	1,612,635	446,582	1,325,017	487,848	459,327	498,969
Depreciation	9,177,623	1,825,735	235,698	1,445,529	632,485	2,070,443	308,213	406,032	371,385	873,465	483,875	178,328	346,435
Utilities	12,930,865	1,521,643	2,693,067	1,198,970	946,344	1,300,575	873,933	1,152,841	686,427	466,478	730,536	667,883	692,168
Rent	8,443,497	432,993	4,667,632	18,831	140,015	808,227	726,496	907,965	135,863	51,290	31,383	13,208	509,594
Other building expenses	6,299,880	399,030	818,635	395,891	325,805	639,428	368,797	1,417,811	314,989	475,619	297,652	584,369	261,854
Furniture and equipment													
Rentals	40,715,109	1,745,000	6,724,467	1,762,117	2,728,583	4,757,594	3,790,519	6,631,196	1,964,957	870,216	3,459,199	2,458,298	3,822,963
Depreciation	11,914,766	1,205,261	2,342,495	875,584	777,544	974,588	922,377	703,531	700,249	509,561	807,606	775,547	1,320,423
Cost of Federal Reserve currency	68,391,270	3,695,015	13,244,057	3,262,654	4,382,058	7,560,930	6,264,672	9,645,885	2,898,315	992,628	3,697,995	4,572,524	8,174,537
All other	18,666,085	1,780,932	3,687,611	1,144,752	1,404,476	1,244,273	1,535,372	1,482,844	755,096	1,015,030	1,227,942	1,501,857	1,885,900
Contra—expense [1]	−1,839,645	−160,745		−41,252	−135,391	−277,446	−240,233	−318,048	−80,532	−41,958	−276,104	−130,389	−137,547
TOTAL [2]	762,313,401	52,389,197	159,517,659	38,981,677	49,601,163	[1] 65,377,646	69,218,718	95,599,171	38,490,432	29,706,105	49,629,390	41,034,853	72,767,390
Reimbursements and recoveries	68,753,870	6,089,314	15,471,196	3,323,766	5,492,515	4,615,706	6,976,140	7,651,145	3,361,030	2,409,508	4,232,202	2,549,036	6,582,312
Net expenses	693,559,531	46,299,883	144,046,463	35,657,911	44,108,648	60,761,940	62,242,578	87,948,026	35,129,402	27,296,597	45,397,188	38,485,817	66,185,078

PROFIT AND LOSS

Current net earnings	9,616,588,875	441,055,600	2,446,860,554	464,580,236	779,140,460	774,025,613	378,478,116	1,534,050,278	395,758,705	208,267,892	398,993,931	515,800,603	1,279,576,887
Additions to current net earnings	9,566,673	411,866	1,474,474	222,528	634,945	839,716	738,848	953,394	412,683	259,819	535,589	702,317	2,380,494
Deductions from current net earnings													
Losses on sales of U S government securities	153,540,294	7,295,987	37,616,259	7,502,838	12,540,229	12,573,630	6,632,176	24,422,267	6,411,272	3,538,876	6,552,263	8,182,764	20,271,733
Losses on foreign exchange transactions [3]	3,652,226	113,219	949,579	149,741	310,439	193,568	273,917	551,486	113,219	116,871	153,394	211,829	514,964
All other	3,522,373	1,061,832	257,491	367,681	29,006	83,179	101,738	456,575	67,764	225,379	78,111	309,705	483,912
Total deductions	160,714,893	8,471,038	38,823,329	8,020,260	12,879,674	12,850,377	7,007,831	25,430,328	6,592,255	3,881,126	6,783,768	8,704,298	21,270,609
Net deductions from current net earnings	151,148,220	8,059,172	37,348,855	7,797,732	12,244,729	12,010,661	6,268,983	24,476,934	6,179,572	3,621,307	6,248,179	8,001,981	18,890,115
Assessment for expenditures of Board of Governors [4]	50,529,700	1,526,100	13,075,100	2,044,800	4,288,000	2,640,900	3,781,700	7,600,200	1,566,200	1,593,400	2,135,800	2,947,500	7,330,000
Net earnings before payments to U S Treasury	9,414,910,955	431,470,328	2,396,436,599	454,737,704	762,607,731	759,374,052	368,427,433	1,501,973,144	388,012,933	203,053,185	390,609,952	504,851,122	1,253,356,772
Dividends paid	67,193,615	1,984,427	17,101,407	2,693,608	5,622,240	3,485,252	5,050,938	9,980,655	2,057,365	2,121,045	2,835,650	3,931,557	10,329,471
Payments to U S Treasury (interest on Federal Reserve notes)	9,278,576,140	429,479,301	2,369,292,692	450,453,896	753,871,891	754,286,850	357,326,595	1,486,696,439	384,828,318	198,716,290	384,374,352	496,323,565	1,212,925,951
Transferred to surplus	69,141,200	6,600	10,042,500	1,590,200	3,113,600	1,601,950	6,049,900	5,296,050	1,127,250	2,215,850	3,399,950	4,596,000	30,101,350
Surplus, January 1	1,076,270,050	32,791,200	279,842,250	43,799,250	91,780,300	56,630,850	80,608,350	162,601,950	33,469,950	34,040,300	45,655,250	62,813,750	152,236,650
Surplus, December 31	1,145,411,250	32,797,800	289,884,750	45,389,450	94,893,900	58,232,800	86,658,250	167,898,000	34,597,200	36,256,150	49,055,200	67,409,750	182,338,000

1 This item includes expenses for labor and materials temporarily capitalized and charged to activities when the products are consumed

2 The total expense for Richmond has been adjusted to exclude $2,578,890, which was allocated to the expenses of other Federal Reserve Banks for operation of the Federal Reserve Communications System

3. Does not include unrealized gains and losses.

4. For additional details, see the last three pages of the section "Board of Governors, Income and Expenses."

NOTE Details may not add to totals because of rounding.

Earnings and Expenses of Federal Reserve Banks, 1914–79

Dollars

Period, or Federal Reserve Bank	Current earnings	Current expenses	Net additions or deductions (−)	Assessments for expenditures of Board of Governors	Dividends paid	Payments to U.S. Treasury			Transferred to surplus (section 13b)	Transferred to surplus (section 7)
						Franchise tax	Under section 13b	Interest on Federal Reserve notes		
All Banks										
1914–15	2,173,252	2,018,282	5,875	302,304	217,463	…	…	…	…	…
1916	5,217,998	2,081,722	−193,001	192,277	1,742,775	…	…	…	…	…
1917	16,128,339	4,921,932	−1,386,545	237,795	6,804,186	1,134,234	…	…	…	1,134,234
1918	67,584,417	10,576,892	−3,908,574	382,641	5,540,684	…	…	…	…	48,334,341
1919	102,380,583	18,744,815	−4,673,446	594,818	5,011,832	2,703,894	…	…	…	70,651,778
1920	181,296,711	27,548,505	−3,743,907	709,525	5,654,018	60,724,742	…	…	…	82,916,014
1921	122,865,866	33,722,409	−6,314,796	741,436	6,119,673	59,974,466	…	…	…	15,993,086
1922	50,498,699	28,836,504	−4,441,914	722,545	6,307,035	10,850,605	…	…	…	−659,904
1923	50,708,566	29,061,539	−8,233,107	702,634	6,552,717	3,613,056	…	…	…	2,545,513
1924	38,340,449	27,767,886	−6,191,143	663,240	6,682,496	113,646	…	…	…	3,077,962
1925	41,800,706	26,818,664	−4,823,477	709,499	6,915,958	59,300	…	…	…	2,473,808
1926	47,599,595	26,628,458	−3,637,668	721,724	7,329,169	818,150	…	…	…	8,464,426
1927	43,024,484	26,739,327	−2,457,792	779,116	7,754,539	249,591	…	…	…	5,044,119
1928	64,052,860	26,207,133	−5,026,029	697,677	8,458,463	2,584,659	…	…	…	21,078,899
1929	70,955,496	28,909,469	−4,861,642	781,644	9,583,911	4,283,231	…	…	…	22,535,597
1930	36,424,044	27,533,141	−93,136	809,585	10,268,598	17,308	…	…	…	−2,297,724
1931	29,701,279	26,322,110	311,451	718,554	10,029,760	…	…	…	…	−7,057,694
1932	50,018,817	25,562,571	−1,413,192	728,810	9,282,244	2,011,418	…	…	…	11,020,582
1933	49,487,318	28,422,677	−12,307,074	800,160	8,874,262	…	…	…	…	−916,855
1934	48,902,813	27,869,374	−4,430,008	1,372,022	8,781,661	…	…	…	−60,323	6,510,071
1935	42,751,959	30,171,545	−1,736,758	1,405,898	8,504,974	…	297,667	…	27,695	607,422
1936	37,900,639	28,194,457	485,817	1,679,566	7,829,581	…	227,448	…	102,880	352,524
1937	41,233,135	27,052,234	−1,631,274	1,748,380	7,940,966	…	176,625	…	67,304	2,616,352
1938	36,261,428	27,186,684	2,232,134	1,724,924	8,019,137	…	119,524	…	−419,140	1,862,433
1939	38,500,665	27,025,391	2,389,555	1,621,464	8,110,462	…	24,579	…	−425,653	4,533,977
1940	43,537,805	27,461,466	11,487,697	1,704,011	8,214,971	…	82,152	…	−54,456	17,617,358
1941	41,380,095	31,123,609	720,636	1,839,541	8,429,936	…	141,465	…	−4,333	570,513
1942	52,662,704	36,877,718	−1,568,208	1,746,326	8,669,076	…	197,672	…	49,602	3,554,101
1943	69,305,715	41,129,934	23,768,282	2,415,630	8,911,342	…	244,726	…	135,003	40,237,362
1944	104,391,829	46,879,564	3,221,880	2,296,357	9,500,126	…	326,717	…	201,150	48,409,795
1945	142,209,546	46,376,762	−830,007	2,340,509	10,182,851	…	247,659	…	262,133	81,969,625
1946	150,385,033	54,975,323	−625,991	2,259,784	10,962,160	…	67,054	…	27,708	81,467,013
1947	158,655,566	62,753,308	1,973,001	2,639,667	11,523,047	…	35,605	75,223,818	86,772	8,366,350
1948	304,160,818	69,466,518	−34,317,947	3,243,670	11,919,809	…	…	166,690,356	…	18,522,518
1949	316,536,930	74,235,176	−12,122,274	3,242,500	12,329,373	…	…	193,145,837	…	21,461,770
1950	275,838,994	77,138,071	36,294,117	3,433,700	13,082,992	…	…	196,628,858	…	21,849,490
1951	394,656,072	91,373,589	−2,127,889	4,095,497	13,864,750	…	…	254,873,588	…	28,320,759

1952	456,.060,260	100,572,489	1,583,988	4,121,602	14,681,788	....	....	291,934,634	....	46,333,735
1953	513,037,237	109,415,220	-1,058,993	4,099,800	15,558,377	....	....	342,567,985	....	40,336,862
1954	438,486,040	105,558,331	-133,641	4,174,600	16,442,236	....	....	276,289,457	....	35,887,775
1955	412,487,931	105,865,923	-265,456	4,194,100	17,711,937	....	....	251,740,721	....	32,709,794
1956	595,649,092	115,842,696	-23,436	5,339,800	18,904,897	....	....	401,555,581	....	53,982,682
1957	763,347,530	124,306,103	-7,140,914	7,507,900	20,080,527	....	....	542,708,405	....	61,603,682
1958	742,068,150	131,804,455	124,175	5,917,200	21,197,452	....	....	524,058,650	....	59,214,569
1959	886,226,116	138,232,106	98,247,253	6,470,600	22,721,687	....	....	910,649,768	....	-93,600,791
1960	1,103,385,257	147,348,575	13,874,702	6,533,700	23,948,225	....	....	896,816,359	....	42,613,100
1961	941,648,170	155,009,475	3,481,628	6,265,100	25,569,541	....	....	687,393,382	....	70,892,300
1962	1,048,508,335	169,481,234	-55,779	6,654,900	27,412,241	....	....	799,365,981	....	45,538,200
1963	1,151,120,060	179,700,557	614,835	7,572,800	28,912,019	....	....	879,685,219	....	55,864,300
1964	1,343,747,303	188,740,689	725,948	8,655,200	30,781,548	....	....	1,582,118,614	....	-465,822,800
1965	1,559,484,027	195,713,790	1,021,614	8,576,396	32,351,602	....	....	1,296,810,053	....	27,053,800
1966	1,908,499,896	198,379,526	996,230	9,021,600	33,696,336	....	....	1,649,455,164	....	18,943,500
1967	2,190,403,752	209,351,250	2,093,876	10,769,596	35,027,312	....	....	1,907,498,270	....	29,851,200
1968	2,764,445,943	228,152,172	8,519,996	14,198,198	36,959,336	....	....	2,463,628,983	....	30,027,250
1969	3,373,360,559	259,953,236	-557,553	15,020,084	39,236,599	....	....	3,019,160,638	....	39,432,450
1970	3,877,218,444	300,145,586	11,441,829	21,227,800	41,136,551	....	....	3,493,570,636	....	32,579,700
1971	3,723,369,921	344,550,798	94,266,075	32,634,002	43,488,074	....	....	3,356,559,873	....	40,403,250
1972	3,792,334,523	379,371,852	-49,615,790	35,234,499	46,183,719	....	....	3,231,267,663	....	50,661,000
1973	5,016,769,328	450,705,676	-80,653,488	44,411,700	49,139,682	....	....	4,340,680,482	....	51,178,300
1974	6,280,090,965	506,424,874	-78,487,237	41,116,600	52,579,643	....	....	5,549,999,411	....	51,483,200
1975	6,257,936,784	551,488,714	-202,369,615	33,577,201	54,609,555	....	....	5,382,064,098	....	33,827,600
1976	6,623,220,383	606,948,264	7,310,500	41,827,700	57,351,487	....	....	5,870,463,382	....	53,940,050
1977	6,891,317,498	623,859,582	-177,033,463	47,366,100	60,182,278	....	....	5,937,148,425	....	45,727,650
1978	8,455,390,401	652,617,206	-633,123,486	53,321,700	63,280,312	....	....	7,005,779,497	....	47,268,200
1979	10,310,148,406	693,559,531	-151,148,220	50,529,700	67,193,615	....	....	9,278,576,140	....	69,141,200
TOTAL. 1914-79	86,789,293,536	9,228,814,669	-1,187,570,774	589,145,608	1,302,245,572	149,138,300	2,188,893	73,056,109,927	-3,657	1,274,083,449
Aggregate for each Bank, 1914-79										
Boston	4,230,527,580	633,580,757	-43,226,749	25,983,486	63,614,330	7,111,395	280,843	3,413,701,984	135,411	42,892,625
New York	22,192,682,761	1,950,665,036	-305,746,127	157,818,086	369,700,281	68,006,262	369,116	19,013,669,945	-433,413	327,141,321
Philadelphia	4,639,851,107	503,836,565	-49,390,193	31,434,018	78,014,410	5,558,901	722,406	3,910,884,281	290,661	59,719,672
Cleveland	6,929,552,530	683,248,221	-102,442,926	52,356,290	119,795,320	4,842,447	82,930	5,858,666,609	-9,906	108,127,693
Richmond	6,431,047,508	726,837,996	-66,143,678	30,695,176	63,898,910	6,200,189	172,493	5,473,057,975	-71,517	64,112,608
Atlanta	4,430,028,018	727,866,192	-85,065,130	38,759,360	75,993,098	8,950,561	79,264	3,401,384,132	5,491	91,924,790
Chicago	13,796,187,958	1,230,018,044	-190,141,271	87,305,972	182,286,674	25,313,526	151,045	11,897,732,990	11,682	183,226,754
St. Louis	3,389,679,519	519,736,640	-40,999,499	19,857,872	43,987,123	2,755,629	7,464	2,722,644,979	-26,515	39,716,828
Minneapolis	1,911,565,085	361,399,045	-30,857,361	15,102,715	32,134,726	5,202,900	55,615	1,426,614,486	64,874	40,133,363
Kansas City	3,521,126,186	551,001,543	-48,034,739	24,265,109	52,414,494	6,939,100	64,213	2,785,220,512	-8,674	53,195,150
Dallas	3,984,826,267	467,983,410	-66,942,677	31,541,573	66,357,806	560,049	102,083	3,279,596,104	55,337	71,687,228
San Francisco	11,332,219,017	872,641,220	-158,580,426	74,025,951	154,048,400	7,697,341	101,421	9,872,935,930	-17,089	192,205,417
TOTAL	86,789,293,536	9,228,814,669	-1,187,570,774	589,145,608	1,302,245,572	149,138,300	2,188,893	73,056,109,927	-3,657	1,274,083,449[1]

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[1] The $1,274,083,449 transferred to surplus was reduced by direct charges of $500,000 for charge-off on Bank premises (1927), $139,299,557 for contributions to capital of the Federal Deposit Insurance Corporation (1934), and $3,657 net upon elimination of sec. 13b surplus (1958) and was increased by $11,131,013 transferred from reserves for contingencies (1945) leaving a balance of $1,145,411,248 on Dec. 31, 1979.

NOTE. Details may not add to totals because of rounding.

8. Bank Premises of Federal Reserve Banks and Branches, December 31, 1979

Dollars

Federal Reserve Bank or branch	Cost				Net book value	Other real estate [3]
	Land	Buildings (including vaults) [1]	Building machinery and equipment	Total [2]		
Boston	20,243,833	87,309,977	....	107,553,810	103,238,561	....
Annex	27,840	89,202	44,538	161,580	136,209	....
New York	3,436,277	15,126,186	12,390,451	30,952,914	11,278,649	8,965,702
Annex	477,863	1,136,219	716,471	2,330,553	477,862	....
Buffalo	673,076	2,806,585	1,640,525	5,120,186	2,423,605	....
Philadelphia	1,876,601	51,803,403	4,952,772	58,632,776	53,911,345	....
Cleveland	1,000,000	4,960,719	4,097,395	10,058,114	1,791,973	1,224,363
Cincinnati	1,980,331	13,554,160	7,521,727	23,056,218	17,074,333	....
Pittsburgh	1,658,376	4,603,952	2,950,159	9,212,487	4,358,485	....
Richmond	3,930,244	54,670,666	14,315,142	72,916,052	70,336,347	....
Annex	522,733	3,939,815	3,616,991	8,079,539	5,078,673	....
Baltimore	4,618,738	3,388,607	1,203,478	9,210,823	7,014,788	....
Charlotte	347,071	1,077,926	736,745	2,161,742	1,017,192	1,635,312
Atlanta	1,202,255	18,429,709	3,558,580	23,190,544	18,091,255	....
Birmingham	2,214,015	2,011,871	1,019,618	5,245,503	3,514,552	....
Jacksonville	164,004	1,706,794	765,188	2,635,986	968,675	944,481
Annex	107,925	76,236	15,842	200,003	160,400	....
Miami	1,667,108	....	....	1,667,108	1,667,108	....
Nashville	592,342	1,474,678	1,172,681	3,239,701	1,552,839	....
New Orleans	3,080,344	2,754,272	1,465,131	7,299,747	5,206,750	283,753
Chicago	4,511,942	14,487,323	11,320,939	30,320,204	13,107,313	
Annex	50,000	302,248	93,916	446,164	395,922	....
Detroit	797,734	2,965,643	1,952,171	5,715,548	2,494,645	....
St. Louis	700,378	3,379,948	3,684,560	7,764,886	2,344,084	....
Little Rock	1,049,411	2,057,689	1,018,004	4,125,104	2,822,976	....
Louisville	700,075	2,882,480	1,159,753	4,742,308	2,514,013	....
Memphis	1,135,623	4,220,335	2,126,755	7,482,713	5,583,123	....
Minneapolis	1,394,384	23,757,464	10,928,091	36,079,939	27,689,707	....
Helena	65,681	101,000	61,906	228,587	92,628	139,735
Kansas City	1,338,737	9,784,015	4,302,144	15,424,896	8,263,697	418,111
Denver	2,997,746	3,209,227	2,351,642	8,558,615	5,804,360	....
Oklahoma City	646,385	2,372,784	1,702,342	4,721,511	3,702,760	....
Omaha	1,030,226	1,720,756	817,214	3,568,196	2,118,692	457,973
Dallas	3,687,482	5,193,804	3,570,804	12,452,090	6,638,552	....
El Paso	262,477	787,728	393,301	1,443,506	832,136	....
Houston	1,959,770	1,408,574	714,187	4,082,531	3,078,263	....
San Antonio	448,596	1,400,390	570,847	2,419,833	1,393,815	....
San Francisco	475,488	4,015,818	2,174,233	6,665,539	1,510,973	13,323,510
Annex	247,201	131,114	62,078	440,393	355,196	....
Los Angeles	644,238	4,720,825	2,387,584	7,752,647	3,781,462	....
Portland	207,380	1,680,478	649,432	2,537,290	1,697,719	....
Salt Lake City	480,222	2,043,899	735,229	3,259,350	2,012,223	....
Seattle	274,772	2,357,534	1,156,717	3,789,023	1,747,478	....
TOTAL	74,926,924	365,902,054	116,117,283	556,946,261	409,281,338	27,392,940

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1. Includes expenditures for construction at some offices pending allocation to appropriate accounts.
2. Excludes charge-offs of $17,698,968 prior to 1952.
3. Includes acquisitions for banking-house purposes, and Bank premises formerly occupied and being held pending sale.

NOTE. Details may not add to totals because of rounding.

9. Volume of Operations in Principal Departments of Federal Reserve Banks, 1976–79

Operation	1979	1978	1977	1976
	Millions of pieces [1]			
Loans	([2])	([2])	([2])	([2])
Currency received and counted	8,839	8,537	8,186	8,061 [r]
Currency verified and destroyed	2,969	2,621	2,609	2,671
Coin received and counted	18,756	18,654 [r]	16,563	15,925
Checks handled				
U.S. government checks	718	721	740	768
Postal money orders	117	125	139	169
All other	15,067	14,107	13,312	12,287
Issues, redemptions, and exchanges of U.S. government securities	335	281	286	289
Transfers of funds	35	29	25	21
Food stamps redeemed	1,730	1,906	1,901	2,003
	Amounts (millions of dollars)			
Loans	220,628	138,928	77,511	17,697
Currency received and counted	93,119	81,175	75,933	71,011
Currency verified and destroyed	22,638	16,443	14,952	14,606
Coin received and counted	2,765	2,495	2,239	2,109
Checks handled				
U.S. government checks	511,044	439,907	416,386	399,468
Postal money orders	6,323	5,534	5,661	6,305
All other	8,514,670	7,111,254	5,499,856	4,645,069
Issues, redemptions, and exchanges of U.S. government securities	8,278,846	8,036,749	8,835,730	7,051,978
Transfers of funds	64,231,109	50,482,656	43,165,467	35,617,756
Food stamps redeemed	7,779	7,251	7,422	7,883

1. Packaged items handled as a single item are counted as one piece.
2. Number handled (in thousands): 1979, 38; 1978, 31; 1977, 12; and 1976, 4.
r Revised.

10. Principal Operations of Federal Reserve Banks—Expense, Ratio of Expense for Each Operation to Total Expenses, and Average Number of Employees, 1976-79

Expenses in thousands of dollars; number of employees in thousands; ratios in percent

Operation and item	1979 [1]	1978 [1]	1977 [1]	1976
Check clearing operations [2]				
Expense	279,094	259,983	246,981	135,209
Ratio to total expenses	36.6	36.4	36.2	20.5
Average number of employees	6.3	6.3	6.5	6.3
Currency function				
Expense	180,974	187,864	182,875	114,036
Ratio to total expenses	23.7	26.3	26.8	17.3
Average number of employees	1.9	2.0	2.2	2.3
Fiscal agency operations				
Expense	83,521	76,837	73,002	48,158
Ratio to total expenses	11.0	10.7	10.7	7.3
Average number of employees	1.9	1.9	2.0	2.3
Bank supervision				
Expense	67,752	58,303	52,702	23,322
Ratio to total expenses	8.9	8.2	7.7	3.5
Average number of employees	1.4	1.3	1.3	1.1
Other operations [3]				
Expense	150,878	131,713	126,318	29,919
Ratio to total expenses	19.8	18.4	18.6	4.6
Average number of employees	2.2	2.2	2.2	1.4
General administration and support				
Expense	....	....	....	307,806
Ratio to total expenses	....	....	....	46.8
Average number of employees	9.4	9.8	10.1	11.1
Accounting	....	....	....	23,298
Auditing	....	....	....	8,050
Bank administration	....	....	....	38,519
Data processing	....	....	....	39,814
Occupancy	....	....	....	64,292
Personnel	....	....	....	27,219
Protection	....	....	....	24,501
Other	....	....	....	82,113
TOTAL EXPENSES	762,219	714,700	681,878	658,450
Less reimbursements	68,786	62,084	58,018	51,502
Net expenses	693,433	652,616	623,860	606,948

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1. Under a new expense accounting system, certain support activities were reclassified as operations and all general administration and support costs were allocated to operations in 1977.
2. Includes automated clearinghouse and noncash collections.
3. Includes mainly economic research and statistics, foreign operations, and lending and credit.

Federal Reserve Bank (including branches)	President	Other officers		Employees			Total	
	Annual salary (dollars)	Number	Annual salaries (dollars)	Number		Annual salaries (dollars)	Number	Annual salaries (dollars)
				Full-time	Part-time			
Boston	84,400	44	1,616,700	1,362	160	21,456,929	1,567	23,158,029
New York	Vacant	131	5,978,765	4,206	96	70,461,014	4,433	76,439,779
Philadelphia	70,500	38	1,397,035	1,056	108	15,055,059	1,203	16,522,594
Cleveland	79,400	37	1,330,830	1,387	72	18,535,985	1,497	19,946,215
Richmond	69,450	61	2,227,900	1,941	82	25,869,357	2,085	28,166,707
Atlanta	83,000	66	2,290,550	2,264	28	28,317,548	2,359	30,691,098
Chicago	94,950	58	2,176,455	2,789	156	38,031,779	3,004	40,303,184
St. Louis	74,500	39	1,386,350	1,212	90	16,020,564	1,342	17,481,414
Minneapolis	60,875	32	1,178,400	881	3	11,972,700	917	13,209,975
Kansas City	60,700	54	1,779,915	1,553	79	19,930,218	1,687	21,770,833
Dallas	66,600	37	1,226,540	1,248	26	15,520,901	1,312	16,814,041
San Francisco	94,950	76	2,782,468	1,856	77	27,739,596	2,010	30,617,014
TOTAL	839,325	673	25,371,908	21,755	977	308,911,650	23,416	335,120,883

Per cent per annum

Federal Reserve Bank	Loans to member banks			Loans to all others under last paragraph of sec. 13[4]
	Under secs. 13 and 13a[1]	Under sec. 10(b)[2]		
		Regular rate	Special rate[3]	
Boston	12	12½	13	15
New York				
Philadelphia				
Cleveland				
Richmond				
Atlanta				
Chicago				
St. Louis				
Minneapolis				
Kansas City				
Dallas				
San Francisco	12	12½	13	15

[1] This rate applies to discounts of eligible paper and advances secured by such paper or by U.S. government obligations or any other obligations eligible for purchase by a Federal Reserve Bank.

[2] This rate applies to advances secured to the satisfaction of the Federal Reserve Bank. Advances secured by mortgages on 1- to 4-family residential property are made at the section 13 rate.

[3] The rate is applicable to special advances described in section 201.2(e)(2) of Regulation A.

[4] This rate applies to advances to individuals, partnerships, or corporations other than member banks that are secured by direct obligations of, or obligations fully guaranteed as to principal and interest by, the U.S. government or any of its agencies.

Member Bank Reserve Requirements

Percent of deposits

Through July 13, 1966

Effective date[1]	Net demand deposits[2]			Time deposits (all classes of banks)
	Central reserve city banks	Reserve city banks	Country banks	
1917—June 21	13	10	7	3
1936—Aug. 16	19½	15	10½	4½
1937—Mar. 1	22¾	17½	12¼	5¼
May 1	26	20	14	6
1938—Apr. 16	22¾	17½	12	5
1941—Nov. 1	26	20	14	6
1942—Aug. 20	24	...	...	...
Sept. 14	22	...	...	...
Oct. 3	20	...	...	...
1948—Feb. 27	22	...	...	...
June 11	24	...	...	...
Sept. 24, 16	26	22	16	7½
1949—May 5, 1	24	21	15	7
June 30, July 1	...	20	14	6
Aug. 1	...	...	13	...
11, 16	23½	19½	12	5
18	23	19	...	...
25	22½	18½	...	...
Sept. 1	22	18	...	...
1951—Jan. 11, 16	23	19	13	6
25, Feb. 1	24	20	14	...
1953—July 9, 1	22	19	13	...
1954—June 24, 16	21	...	...	5
July 29, Aug. 1	20	18	12	...
1958—Feb. 27, Mar. 1	19½	17½	11½	...
Mar. 20, Apr. 1	19	17	11	...
Apr. 17	18½	...	...	...
24	18	16½	...	...
1960—Sept. 1	17½	...	...	...
Nov. 24	...	...	12	...
Dec. 1	16½	...	...	...
1962—July 28	(3)	...	...	...
Oct. 25, Nov. 1	...	...	...	4

July 14, 1966, through Nov. 8, 1972 (deposit intervals in millions of dollars)

Effective date[1]	Net demand deposits[2]				Time deposits[4] (all classes of banks)		
	Reserve city banks		Country banks		Savings	Other time	
	0–5	Over 5	0–5	Over 5		0–5	Over 5
1966—July 14, 21	16½[5]		12[5]		4[5]	4[5]	5
Sept. 8, 15	...	...	...	...	...	...	6
1967—Mar. 2	...	...	...	...	3½	3½	...
16	...	...	...	...	3	3	...
1968—Jan. 11, 18	16½	17	12	12½	...	...	...
1969—Apr. 17	17	17½	12½	13	...	...	...
1970—Oct. 1	...	...	...	...	...	...	5

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[1] Reserves required during the period from inception of the Federal Reserve System until June 20, 1917, were not strictly comparable with later requirements; they were based on aggregate amounts of deposits, and reserve balances with the Reserve Banks were increased in stages.

When two dates are shown, the first applies to the change at central reserve or reserve city banks and the second to the change at country banks.

[2] Demand deposits subject to reserve requirements, beginning Aug. 23, 1935, have been total demand deposits minus cash items in process of collection and demand balances due from domestic banks (also minus war loan and Series E bond accounts during the period Apr. 13, 1943–June 30, 1947).

All required reserves were held on deposit with Federal Reserve Banks from June 21, 1917, until late 1959. Since then, member banks have also been allowed to count vault cash as reserves, as follows: country banks—in excess of 4 and 2½ percent of net demand deposits effective Dec. 1, 1959, and Aug. 25, 1960, respectively; central reserve city and reserve city banks—in excess of 2 and 1 percent effective Dec. 3, 1959, and Sept. 1, 1960, respectively; all member banks were allowed to count all vault cash as reserves effective Nov. 24, 1960.

In graduated requirement schedules, each deposit interval applies to that part of the deposits of each bank.

Beginning Nov. 9, 1972 (deposit intervals in millions of dollars)

Effective date	Net demand deposits[2,6]					Time and savings deposits[4]						
							Time[7]					
							0–5, by maturity			Over 5, by maturity		
	0–2	2–10	10–100	100–400	Over 400	Savings	30–179 days	180 days to 4 yrs.	4 yrs. or more	30–179 days	180 days to 4 yrs.	4 yrs. or more
1972—Nov. 9	8	10	12	16½[8]	17½	3[5]	3[5]			5[5]		
16	......	......	......	13	......	......	......	......	......	......	......	......
1973—July 19	......	10½	12½	13½	18	......	......	......	......	......	......	......
1974—Dec. 12				......	17½	......	......	......	......	6	3	
1975—Feb. 13	7½	10	12	13	16½	......	......	......	......	......	......	......
Oct. 30	......	......	......	......	......	......	3		1[9]	......	3	1[9]
1976—Jan. 8	......	......	......	......	......	......	3	2½[9]	......	......	2½[9]	......
Dec. 30	7	9½	11¾	12¾	16¼	......	......	......	......	......	......	......
In effect Dec. 31, 1979	7	9½	11¾	12¾	16¼	3	3	2½[9]	1[9]	6	2½[9]	1[9]

Legal limits—Dec. 31, 1979	Minimum	Maximum
Net demand deposits		
Reserve city banks	10	22
Other banks	7	14
Borrowings from foreign banks	0	22
Time deposits	3	10

Beginning Oct. 16, 1969, Regulation M required reserves against (a) net balances due from domestic offices to their foreign branches and (b) foreign-branch loans to U.S. residents. Regulation D imposed a similar requirement against (c) borrowings from foreign banks by domestic offices of a member bank. Limited reserve-free base amounts were originally permitted under Regulation M but were eliminated for (b) effective June 21, 1973, and were lowered in steps for (a) and (c) until eliminated effective Mar. 14, 1974. Beginning June 21, 1973, loans aggregating $100,000 or less to any U.S. resident have been excluded from computations, as have total loans of a bank to U.S. residents if not exceeding $1 million. The applicable reserve percentage, which was originally 10 percent, was increased to 20 percent on Jan. 7, 1971; reduced to 8 percent on June 21, 1973, to 4 percent on May 22, 1975, and to zero on Aug. 24, 1978. Effective Dec. 1, 1977, the reserve required against deposits that foreign branches of U.S. banks use for lending to U.S. residents was reduced to 1 percent, and on Aug. 24, 1978, it was reduced to zero. For details see Regulations D and M as described in "Record of Policy Actions of the Board of Governors," in previous ANNUAL REPORTS.

[3] Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

[4] Time deposits such as Christmas and vacation club accounts became subject to the same requirements as savings deposits, effective Jan. 5, 1967. Negotiable order of withdrawal (NOW) accounts were defined in the Board's Regulation Q as savings deposits beginning Jan. 1, 1974.

The last three paragraphs of note 2 above are also relevant to time deposits.

[5] This rate had been established in the earlier structure. It remained the same in the new structure established this date.

[6] Effective Nov. 9, 1972, a new criterion was adopted to designate reserve cities, and on the same date requirements for reserves against net demand deposits of member banks were restructured to provide that each member bank will maintain reserves related to the size of its net demand deposits. The new reserve city designations are as follows: A bank having net demand deposits of more than $400 million is considered to have the character of business of a reserve city bank, and the presence of the head office of such a bank constitutes designation of that place as a reserve city. Cities in which there are Federal Reserve Banks or branches are also reserve cities. Any bank, wherever located, having net demand deposits of $400 million or less is considered to have the character of business of banks outside of reserve cities and is permitted to maintain reserves at ratios set for banks not in reserve cities.

[7] Beginning Nov. 2, 1978, a supplementary reserve requirement of 2 percent was added to the existing requirements for time deposits of $100,000 or more and for certain other liabilities.

From June 21, 1973, through Dec. 11, 1974, member banks, except as noted below, were subject to a marginal reserve requirement against increases in the aggregate of the following types of obligations: (a) outstanding time deposits of $100,000 or more, (b) outstanding funds obtained by the bank through issuance by a bank's affiliate of obligations subject to the existing reserve requirements on time deposits, and (c) beginning July 12, 1973, funds from sales of finance bills. For the period June 21 through Aug. 29, 1973, (a) included only single-maturity time deposits. The requirement applied to balances above a specified base, but was not applicable to banks having obligations of these types aggregating less than $10 million. Including the basic requirement (5 percent during the entire period), requirements were as follows: 8 percent for (a) and (b) from June 21 through Oct. 3, 1973, and for (c) from July 12 through Oct. 3, 1973; 11 percent from Oct. 4 through Dec. 26, 1973; and 8 percent from Dec. 27, 1973, through Sept. 18, 1974. Beginning Sept. 19, the 8 percent requirement applied only to those obligations in (a), (b) and (c) with initial maturities of less than 120 days, and effective Dec. 12, 1974, the remaining marginal reserve was removed on this type of obligation issued to mature in less than 4 months. For details, see "Record of Policy Actions of the Board of Governors" in 1973 and 1974 ANNUAL REPORTS.

Effective with the reserve maintenance period beginning Oct. 25, 1979, a marginal reserve requirement of 8 percent was added to managed liabilities in excess of a base amount. Managed liabilities are defined as large time deposits, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, federal funds borrowings from nonmember institutions, and certain other obligations. In general, the base for the marginal reserve requirement is $100 million or the average amount of the managed liabilities held by a member bank, Edge corporation, or family of U.S. branches and agencies of a foreign bank for the two statement weeks ending Sept. 26, 1979.

[8] The 16½ percent requirement applied only for 1 week and solely to former reserve city banks. For other banks, the 13 percent requirement was continued in this deposit interval.

[9] The average of reserves on savings and other time deposits must be at least 3 percent, the legal minimum.

Percent per annum

Nov. 1, 1933—July 19, 1966

Type of deposit	Effective date							
	Nov. 1, 1933	Feb. 1, 1935	Jan. 1, 1936	Jan. 1, 1957	Jan. 1, 1962	July 17, 1963	Nov. 24, 1964	Dec. 6, 1965
Savings deposits								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Postal savings deposits[1]								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Other time deposits[2]								
12 months or more	3	2½	2½	3	4	4	4½	5½
6–12 months					3½			
90 days to 6 months	3	2½	2	2½	2½			
Less than 90 days (30–89 days)	3	2½	1	1	1	1	4	

July 20, 1966—June 30, 1973

Type of deposit	Effective date			
	July 20, 1966	Sept. 26, 1966	Apr. 19 1968	Jan. 21, 1970
Savings deposits	4	4	4	4½
Other time deposits[2]				
Multiple maturity[3]				
30–89 days	4	4	4	4½
90 days to 1 year	5	5	5	5
1–2 years				5½
2 years or more				5¾
Single-maturity				
Less than $100,000				
30 days to 1 year	5½	5	5	5
1–2 years				5½
2 years or more				5¾
$100,000 or more				
30–59 days	5½	5½	5	(4)
60–89 days			5¾	(4)
90–179 days			6	(4)
180 days to 1 year			6¾	(4)
1 year or more				(4)

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[1] Closing date for the Postal Savings System was Mar. 28, 1966.

[2] For exceptions with respect to foreign time deposits, see ANNUAL REPORT for 1962, p. 129; 1965, p. 233; 1968, p. 69.

[3] Multiple-maturity time deposits include deposits that are automatically renewable at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.

[4] The limit on rates on single-maturity time deposits of $100,000 or more has been suspended. The maximum rates that became effective Jan. 21, 1970, and the dates when they were suspended are as follows:

30–59 days	6¼ percent	June 24, 1970
60–89 days	6½ percent	
90–179 days	6¾ percent	May 16, 1973
180 days to 1 year	7 percent	
1 year or more	7½ percent	

Rates on multiple-maturity time deposits in denominations of $100,000 or more were suspended July 16, 1973, when the distinction between single- and multiple-maturity deposits was eliminated.

[5] For authorized states only, federally insured commercial banks, savings and loan associations, cooperative banks, and mutual savings banks in Massachusetts and New Hampshire were first permitted to offer negotiable

Beginning July 1, 1973

Type of deposit	Effective date						
	July 1, 1973	Nov. 1, 1973	Nov. 23, 1974	Dec. 23, 1974	July 6, 1977	June 1, 1978	July 1, 1979
Savings deposits	5	5	5	5	5	5	5¼
Negotiable order of withdrawal accounts [5]	......	......	5	5	5	5	5
Other time deposits (multiple- and single-maturity) [2, 3]							
Less than $100,000							
30–89 days	5	5	5	5	5	5	5¼ [6]
90 days to 1 year	5½	5½	5½	5½	5½	5½	5½
1–2½ years	6	6	6	6	6	6	6
2½–4 years	6½	6½	6½	6½	6½	6½	6½
4–6 years [7]				7¼	7¼	7¼	7¼
6–8 years [7]	(8)	7¼	7¼	7½	7½	7¼	7¾
8 years or more [7]						7¾	......
Governmental units	(9)	(9)	7½	7¾	7¾	8	8
Individual retirement accounts and Keogh (H.R. 10) plans [10]	......	......	......	......	7¾	8	8
Money market time deposits [11]	......	......	......	......	......	(12)	(12)
Variable ceiling—4 years or more	......	......	......	......	......	......	(13)
$100,000 or more	(4)	(4)	(4)	(4)	(4)	(4)	(4)

order of withdrawal (NOW) accounts on Jan. 1, 1974. Authorization to issue NOW accounts was extended to similar institutions throughout New England on Feb. 27, 1976, in New York State on Nov. 10, 1978, and in New Jersey on Dec. 28, 1979.

[6] Effective Aug. 1, 1979.

[7] Until July 1, 1979, minimum denomination was $1,000 except for deposits representing funds contributed to an individual retirement account (IRA) or a Keogh (H.R. 10) plan established pursuant to the Internal Revenue Code. The $1,000 minimum requirement was removed for such accounts in December 1975 and November 1976 respectively.

[8] Between July 1, and Oct. 31, 1973, there was no ceiling for certificates maturing in 4 years or more with minimum denominations of $1,000. The amount of such certificates that a bank could issue was limited to 5 percent of its total time and savings deposits. Sales in excess of that amount were subject to the 6½ percent ceiling that applies to time deposits maturing in 2½ years or more.

Effective Nov. 1, 1973, a ceiling rate of 7¼ percent was imposed on certificates maturing in 4 years or more with minimum denominations of $1,000. There is no limitation on the amount of these certificates that banks may issue.

[9] Before Nov. 27, 1974, no distinction was made between the time deposits of governmental units and of other holders insofar as Regulation Q ceilings on rates payable were concerned. Effective Nov. 27, 1974, governmental units were permitted to hold savings deposits and could receive interest rates on time deposits with denominations of less than $100,000, irrespective of maturity, as high as the maximum rate permitted on such deposits at any federally insured depositary institution. Effective June 1, 1978, the maximum rate on such governmental-unit time deposits was set as high as the maximum permitted on such deposits maturing in more than 6 months (26 weeks) at any federally insured commercial bank, mutual savings bank, or savings and loan association.

[10] Three-year minimum maturity.

[11] These deposits must have a maturity of exactly 26 weeks and a minimum denomination of $10,000, and must be nonnegotiable.

[12] Commercial banks were authorized to offer money market time deposits effective June 1, 1978. The ceiling rate is the discount rate on most recently issued 6-month U.S. Treasury bills. The most recent rates and effective dates are published monthly in the *Federal Reserve Bulletin*, p. A10.

[13] Effective July 1, 1979, member banks are authorized to offer variable-ceiling accounts with no required minimum denomination and with maturities of 4 years or more. The maximum rate for member banks is 1¼ percentage points below the average yield on 4-year U.S. Treasury securities. The most recent rates and effective dates are published monthly in the *Federal Reserve Bulletin*, p. A10.

NOTE: Maximum rates that may be paid by member banks are established by the Board of Governors under provisions of Regulation Q; however, a member bank may not pay a rate in excess of the maximum rate payable by state banks or trust companies on like deposits under the laws of the state in which the member bank is located. Beginning Feb. 1, 1936, maximum rates that may be paid by nonmember insured commercial banks, as established by the Federal Deposit Insurance Corporation, have been the same as those in effect for member banks.

Percent of market value

Effective date	For credit extended under Regulation T (brokers and dealers), U (banks), G (others than brokers, dealers, or banks), and X (borrowers)			
	Margin stocks	Convertible bonds	Short sales, T only	Writing options, T only[2]
1934—Oct. 1	25—45	....	(3)	....
1936—Feb. 1	25—35	....	(3)	....
Apr. 1	55	....	(3)	....
1937—Nov. 1	40	....	50	....
1945—Feb. 5	50	....	50	....
July 5	75	....	75	....
1946—Jan. 21	100	....	100	....
1947—Feb. 1	75	....	75	....
1949—Mar. 3	50	....	50	....
1951—Jan. 17	75	....	75	....
1953—Feb. 20	50	....	50	....
1955—Jan. 4	60	....	60	....
Apr. 23	70	....	70	....
1958—Jan. 16	50	....	50	....
Aug. 5	70	....	70	....
Oct. 16	90	....	90	....
1960—July 28	70	....	70	....
1962—July 10	50	....	50	....
1963—Nov. 6	70	....	70	....
1968—Mar. 11	70	50	70	....
June 8	80	60	80	....
1970—May 6	65	50	65	....
1971—Dec. 6	55	50	55	....
1972—Nov. 24	65	50	65	....
1974—Jan. 3	50	50	50	....
1977—Jan. 1	50	50	50	30

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[1] Regulations T, U, G, and X, adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry "margin securities" and "margin stock" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

[2] The margin is expressed as a percent of the current market value of the stock underlying the option.

[3] The requirement was the margin "customarily required" by the brokers and dealers.

16. Principal Assets and Liabilities and Number of Insured Commercial Banks,[1] by Class of Bank, September 30, 1979 and 1978

Asset and liability items shown in millions of dollars

Item	Insured commercial banks				Insured nonmember banks
	Total	Member banks			
		Total	National	State	
	September 30, 1979 [P]				
Loans and investments, total	1,096,476	794,294	619,086	175,208	302,182
Loans					
Gross	828,100	613,286	478,555	134,731	214,814
Net	799,366	593,005	462,305	130,699	206,361
Investments	268,376	181,008	140,531	40,477	87,368
U.S. Treasury securities	86,333	57,371	43,746	13,625	28,962
Other [2]	182,043	123,637	96,785	26,852	58,406
Cash assets, total	181,050	155,066	101,186	53,880	25,984
Deposits, total	1,031,704	741,406	565,480	175,925	290,298
Interbank	63,349	60,978	30,879	30,098	2,371
Other demand	267,527	210,044	155,750	54,294	57,484
Other time	700,828	470,384	378,851	91,533	230,444
Total equity capital	95,067	69,387	53,240	16,147	25,680
Number of banks	14,386	5,470	4,480	990	8,916
	September 30, 1978				
Loans and investments, total	974,032	707,461	549,138	158,323	266,571
Loans					
Gross	717,087	532,844	414,263	118,581	184,243
Net	692,639	515,593	400,375	115,218	177,046
Investments	256,945	174,617	134,875	39,742	82,328
U.S. Treasury securities	90,879	61,673	46,534	15,139	29,206
Other [2]	166,066	112,944	88,341	24,603	53,122
Cash assets, total	158,340	134,960	91,229	43,730	23,380
Deposits, total	960,693	701,254	533,118	168,136	259,439
Interbank	58,005	55,366	28,796	26,570	2,639
Other demand	320,714	235,943	179,783	56,160	84,771
Other time	581,974	409,945	324,538	85,406	172,030
Total equity capital	85,539	63,178	48,292	14,886	22,361
Number of banks	14,390	5,594	4,597	997	8,796

[1] All insured commercial banks in the United States.

[2] Includes trading accounts for banks with assets less than $100 million.

[P] Preliminary data.

NOTE. Details may not add to totals because of rounding.

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[4]	Special drawing rights certificate accounts	Treasury currency outstanding[5]
	U.S. government securities			Loans	Float[1]	All other[2]	Other Federal Reserve assets[3]	Total			
	Total	Bought outright	Held under repurchase agreement								
1918	239	239	0	1,766	199	294	0	2,498	2,873	0	1,795
1919	300	300	0	2,215	201	575	0	3,292	2,707	0	1,707
1920	287	287	0	2,687	119	262	0	3,355	2,639	0	1,709
1921	234	234	0	1,144	40	146	0	1,563	3,373	0	1,842
1922	436	436	0	618	78	273	0	1,405	3,642	0	1,958
1923	134	80	54	723	27	355	0	1,238	3,957	0	2,009
1924	540	536	4	320	52	390	0	1,302	4,212	0	2,025
1925	375	367	8	643	63	378	0	1,459	4,112	0	1,977
1926	315	312	3	637	45	384	0	1,381	4,205	0	1,991
1927	617	560	57	582	63	393	0	1,655	4,092	0	2,006
1928	228	197	31	1,056	24	500	0	1,809	3,854	0	2,012
1929	511	488	23	632	34	405	0	1,583	3,997	0	2,022
1930	729	686	43	251	21	372	0	1,373	4,306	0	2,027
1931	817	775	42	638	20	378	0	1,853	4,173	0	2,035
1932	1,855	1,851	4	235	14	41	0	2,145	4,226	0	2,204
1933	2,437	2,435	2	98	15	137	0	2,688	4,036	0	2,303
1934	2,430	2,430	0	7	5	21	0	2,463	8,238	0	2,511
1935	2,431	2,430	1	5	12	38	0	2,486	10,125	0	2,476
1936	2,430	2,430	0	3	39	28	0	2,500	11,258	0	2,532
1937	2,564	2,564	0	10	19	19	0	2,612	12,760	0	2,637
1938	2,564	2,564	0	4	17	16	0	2,601	14,512	0	2,798
1939	2,484	2,484	0	7	91	11	0	2,593	17,644	0	2,963
1940	2,184	2,184	0	3	80	8	0	2,274	21,995	0	3,087
1941	2,254	2,254	0	3	94	10	0	2,361	22,737	0	3,247
1942	6,189	6,189	0	6	471	14	0	6,679	22,726	0	3,648
1943	11,543	11,543	0	5	681	10	0	12,239	21,938	0	4,094
1944	18,846	18,846	0	80	815	4	0	19,745	20,619	0	4,131
1945	24,262	24,262	0	249	578	2	0	15,091	20,065	0	4,339
1946	23,350	23,350	0	163	580	1	0	24,093	20,529	0	4,562
1947	22,559	22,559	0	85	535	1	0	23,181	22,754	0	4,562
1948	23,333	23,333	0	223	541	1	0	24,097	24,244	0	4,589
1949	18,885	18,885	0	78	534	2	0	19,499	24,427	0	4,598
1950	20,778	20,725	53	67	1,368	3	0	22,216	22,706	0	4,636
1951	23,801	23,605	196	19	1,184	5	0	25,009	22,695	0	4,709
1952	24,697	24,034	663	156	967	4	0	25,825	23,187	0	4,812
1953	25,916	25,318	598	28	935	2	0	26,880	22,030	0	4,894
1954	24,932	24,888	44	143	808	1	0	25,885	21,713	0	4,985
1955	24,785	24,391	394	108	1,585	29	0	26,507	21,690	0	5,008
1956	24,915	24,610	305	50	1,665	70	0	26,699	21,949	0	5,066
1957	24,238	23,719	519	55	1,424	66	0	25,784	22,781	0	5,146
1958	26,347	26,252	95	64	1,296	49	0	27,755	20,534	0	5,234
1959	26,648	26,607	41	458	1,590	75	0	28,771	19,456	0	5,311
1960	27,384	26,984	400	33	1,847	74	0	29,338	17,767	0	5,398
1961	28,881	30,478	159	130	2,300	51	0	31,362	16,889	0	5,585
1962	30,820	28,722	342	38	2,903	110	0	33,871	15,978	0	5,567
1963	33,593	33,582	11	63	2,600	162	0	36,418	15,513	0	5,578
1964	37,044	36,506	538	186	2,606	94	0	39,930	15,388	0	5,405

For notes see last two pages of table.

Factors absorbing reserve funds

Currency in circulation	Treasury cash holdings[6]	Deposits, other than member bank reserves, with Federal Reserve Banks			Other Federal Reserve accounts[3]	Other Federal Reserve liabilities and capital[3]	Member bank reserves			
		Treasury	Foreign	Other			With Federal Reserve Banks	Currency and coin[7]	Required[8]	Excess[8]
4.951	288	51	96	25	118	0	1.636	0	1.585	51
5.091	385	31	73	28	208	0	1.890	0	1.822	68
5.325	218	57	5	18	298	0	1.781	0	0	0
4.403	214	96	12	15	285	6	1.753	0	1.654	99
4.530	225	11	3	26	276	0	1.934	0	0	0
4.757	213	38	4	19	275	0	1.898	0	1.884	14
4.760	211	51	19	20	258	0	2.220	0	2.161	59
4.817	203	16	8	21	272	0	2.212	0	2.256	− 44
4.808	201	17	46	19	293	0	2.194	0	2.250	− 56
4.716	208	18	5	21	301	0	2.487	0	2.424	63
4.686	202	23	6	21	348	0	2.389	0	2.430	− 41
4.578	216	29	6	24	393	0	2.355	0	2.428	− 73
4.603	211	19	6	22	375	0	2.471	0	2.375	96
5.360	222	54	79	31	354	0	1.961	0	1.994	− 33
5.388	272	8	19	24	355	0	2.509	0	1.933	576
5.519	284	3	4	128	360	0	2.729	0	1.870	859
5.536	3.029	121	20	169	241	0	4.096	0	2.282	1.814
5.882	2.566	544	29	226	253	0	5.587	0	2.743	2.844
6.543	2.376	244	99	160	261	0	6.606	0	4.622	1.984
6.550	3.619	142	172	235	263	0	7.027	0	5.815	1.212
6.856	2.706	923	199	242	260	0	8.724	0	5.519	3.205
7.598	2.409	634	397	256	251	0	11.653		6.444	5.209
8.732	2.213	368	1.133	599	284	0	14.026	0	7.411	6.615
11.160	2.215	867	774	586	291	0	12.450	0	9.365	3.085
15.410	2.193	799	793	485	256	0	13.117	0	11.129	1.988
20.449	2.303	579	1.360	356	339	0	12.886	0	11.650	1.236
25.307	2.375	440	1.204	394	402	0	14.373	0	12.748	1.625
28.515	2.287	977	862	446	495	0	15.915	0	14.457	1.458
28.952	2.272	393	508	314	607	0	16.139	0	15.577	562
28.868	1.336	870	392	569	563	0	17.899	0	16.400	1.499
28.224	1.325	1.123	642	547	590	0	20.479	0	19.277	1.202
27.600	1.312	821	767	750	706	0	16.568	0	15.550	1.018
27.741	1.293	668	895	565	714	0	17.681	0	16.509	1.172
29.206	1.270	247	526	363	746	0	20.056	0	19.667	389
30.433	1.270	389	550	455	777	0	19.950	0	20.520	− 570
30.781	761	346	423	493	839	0	20.160	0	19.397	763
30.509	796	563	490	441	907	0	18.876	0	18.618	258
31.158	767	394	402	554	925	0	19.005	0	18.903	102
31.790	775	441	322	426	901	0	19.059	0	19.089	− 30
31.834	761	481	356	246	998	0	19.034	0	19.091	− 57
32.193	683	358	272	391	1.122	0	18.504	0	18.574	− 70
32.591	391	504	345	694	841	0	18.174	310	18.619	− 135
32.869	377	485	217	533	941	0	17.081	2.544	18.988	637
33.918	422	465	279	320	1.044	0	17.387	2.823	20.114	96
35.338	380	597	247	393	1.007	0	17.454	3.262	20.071	645
37.692	361	880	171	291	1.065	0	17.049	4.099	20.677	471
39.619	612	820	229	321	1.036	0	18.086	4.151	21.663	574

For notes see last two pages of table.

Member Bank Reserves, Federal Reserve Bank Credit, and Related Items—Year-End 1918–79 and Month-End 1979—Continued

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[4]	Special drawing rights certificate accounts	Treasury currency outstanding[5]
	U.S. government securities[9]			Loans	Float[1]	All other[2]	Other Federal Reserve assets	Total			
	Total	Bought outright[10]	Held under repurchase agreement								
1965	40.768	40.478	290	137	2.248	187	0	43.340	13.733	0	5.575
1966	44.316	43.655	661	173	2.495	193	0	47.177	13.159	0	6.317
1967	49.150	48.980	170	141	2.576	164	0	52.031	11.982	0	6.784
1968	52.937	52.937	0	186	3.443	58	0	56.624	10.367	0	6.795
1969	57.154	57.154[10]	0	183	3.440	64	2.743	63.584	10.367	0	6.852
1970	62.142	62.142	0	335	4.261	57	1.123	67.918	10.732	400	7.149
1971	70.804	69.481	1.323	39	4.343	261	1.068	76.515	10.132	400	7.710
1972	71.230	71.119	111	1.981	3.974	106	1.260	78.551	10.410	400	8.313
1973	80.495	80.395	100	1.258	3.099	68	1.152	86.072	11.567	400	8.716
1974	85.714	84.760	954	299	2.001	999	3.195	92.208	11.652	400	9.253
1975	94.124	92.789	1.335	211	3.688	1.126	3.312	102.461	11.599	500	10.218
1976	104.093	100.062	4.031	25	2.601	991	3.182	110.892	11.598	1.200	10.810
1977	111.274	108.922	2.352	265	3.810	954	2.442	118.745	11.718	1.250	11.331
1978	118.591	117.374	1.217	1.174	6.432	587	4.543	131.327	11.671	1.300	11.831
1979 p	126.167	124.507	1.660	1.454	6.767	704	5.613	140.705	11.112	1.800	12.947
1979											
Jan	108.786	108.786	0	4.366	6.578	0	5.676	125.406	11.592	1.300	11.912
Feb	110.973	110.973	0	1.603	8.631	0	4.571	125.778	11.544	1.300	12.018
Mar	118.772	116.724	2.048	963	4.337	204	6.405	130.681	11.479	1.300	12.114
Apr	116.201	114.751	1.450	1.256	7.361	252	7.105	132.175	11.416	1.300	12.242
May	113.608	113.608	0	1.330	8.518	0	6.277	129.733	11.354	1.800	12.362
June	118.324	114.193	4.131	1.558	3.924	1.400	5.766	130.972	11.323	1.800	12.525
July	120.326	117.609	2.717	852	3.896	1.159	5.241	131.474	11.290	1.800	12.599
Aug	121.422	120.877	545	1.572	4.209	475	4.621	132.299	11.259	1.800	12.724
Sept	124.781	122.820	1.961	1.156	2.654	1.053	5.349	134.993	11.228	1.800	12.825
Oct [2]	122.858	122.676	182	2.672	4.685	317	4.473	135.005	11.194	1.800	12.937
Nov [2]	127.281	125.749	1.532	2.034	3.729	269	4.695	138.008	11.112	1.800	13.020
Dec [2]	126.167	124.507	1.660	1.454	6.767	704	5.613	140.705	11.112	1.800	12.947

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1. Beginning with 1960, figures reflect a minor change in concept; see *Federal Reserve Bulletin*, vol. 47 (Feb. 1961), p. 164.

2. Data consist principally of acceptances and, until Aug. 21, 1959, industrial loans, authority for which expired on that date.

3. Before Apr. 16, 1969, this category includes the total of Federal Reserve Bank capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends less the sum of bank premises and other assets, and was reported as "Other Federal Reserve accounts"; thereafter, "Other Federal Reserve assets" and "Other Federal Reserve liabilities and capital" are shown separately.

4. Before Jan. 30, 1934, data include gold held in Federal Reserve Banks and in circulation.

5. These figures include currency and coin (other than gold) issued directly by the Treasury. The largest components are fractional and dollar coins. For details see the regular table, "Currency and Coin in Circulation," in the *Treasury Bulletin*.

6. This category consists of the coin and paper currency held by the Treasury, as well as any gold in excess of the gold certificates issued to the Reserve Bank.

7. Between Dec. 1, 1959, and Nov. 23, 1960, part of the amount was allowed as reserves; thereafter all was allowed.

8. These figures are estimated through 1958. Before 1929, they were available only on call dates (in 1920 and 1922, the call dates were Dec. 29). Beginning Sept. 12, 1968, the amount is based on close-of-business figures for the reserve period 2 weeks previous to the report date.

9. Beginning Dec. 1, 1966, these securities include federal agency obligations held under repurchase agreements and beginning Sept. 29, 1971, federal agency issues bought outright.

Factors absorbing reserve funds										
Currency in circulation	Treasury cash holdings[6]	Deposits, other than member bank reserves, with Federal Reserve Banks			Other Federal Reserve accounts[3]	Other Federal Reserve liabilities and capital[3]	Reserve accounts[11]			
		Treasury	Foreign	Other[2]			With Federal Reserve Banks	Currency and coin[7]	Required[8]	Excess[8, 12]
42.056	760	668	150	355	211	0	18.447	4.163	22.848	−238
44.663	1.176	416	174	588	−147	0	19.779	4.310	24.321	−232
47.226	1.344	1.123	135	653	−773	0	21.092	4.631	25.905	−182
50.961	695	703	216	747	−1.353	0	21.818	4.921	27.439	−700
53.950	596	1.312	134	807	0	1.919	22.085	5.187	28.173	−901
57.093	431	1.156	148	1.233	0	1.986	24.150	5.423	30.033	−460
61.068	460	2.020	294	999	0	2.131	27.788	5.743	32.496	1.035
66.516	345	1.855	325	840	0	2.143	25.647	6.216	32.044	98[12]
72.497	317	2.542	251	1.419[13]	0	2.669	27.060	6.781	35.268	−1.360
79.743	185	3.113	418	1.275[13]	0	2.935	25.843	7.370	37.011	−3.798
86.547	483	7.285	353	1.090	0	2.968	26.052	8.036	35.197	−1.103[14]
93.717	460	10.393	352	1.357	0	3.063	25.158	8.628	35.461	−1.535
103.811	392	7.114	379	1.187	0	3.292	26.870	9.421	37.615	−1.265
114.645	240	4.196	368	1.256	0	4.275	31.152	10.538	42.694	−893
125.473	426	4.075	429	1.412	0	4.957	29.792	11.429	44.217	−2.835
110.662	289	3.522	339	874	0	4.594	29.931	11.001	42.267	−1.194
111.334	339	3.443	343	779	0	4.679	29.723	9.737	39.637	−434
111.988	385	5.726	303	708	0	4.750	31.714	9.776	40.042	1.583
113.234	370	3.100	388	813	0	4.641	34.587	9.963	41.661	3.023
115.335	364	1.974	407	852	0	4.715	31.602	10.153	39.305	2.578
116.575	370	3.290	326	813	0	4.836	30.407	10.439	40.802	165
117.896	262	2.765	373	636	0	4.951	30.279	10.804	40.856	384
118.914	268	3.542	325	663	0	4.876	29.493	10.596	40.489	−243
118.716	337	6.489	348	780	0	5.086	29.089	10.954	41.769	−1.582
120.125	394	2.209	352	286	0	5.011	32.561	10.891	43.285	310
122.082	427	2.590	490	352	0	5.378	32.617	11.038	43.379	416
125.473	426	4.075	429	1.412	0	4.957	29.792	11.429	44.217	−2.835

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[10] *Includes*, beginning 1969, securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

[11] Beginning November 1979, includes reserves of member banks, Edge Act corporations, and U.S. agencies and branches of foreign banks.

[12] Beginning with the week ending Nov. 15, 1972, figures include $450 million of reserve deficiencies on which Federal Reserve Banks are allowed to waive penalties for a transition period in connection with bank adaptation to Regulation J as amended, effective Nov. 9, 1972. Allowable deficiencies (beginning with first statement week of quarter) included are (in millions): 1973—Q1, $279; Q2, $172; Q3, $112; Q4, $84; and 1974—Q1, $67, and Q2, $58. The transition period ended after the second quarter of 1974.

[13] Beginning July 1973, this item includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with Federal Reserve Banks in connection with voluntary participation by nonmember institutions in the Federal Reserve System's program of credit restraint.

As of Dec. 12, 1974, the amount of voluntary nonmember bank and foreign-agency and branch deposits at Federal Reserve Banks that are associated with marginal reserves are no longer reported. However, two amounts are reported: (1) deposits voluntarily held as reserves by agencies and branches of foreign banks operating in the United States, and (2) Eurodollar liabilities.

[14] Beginning with the week ending Nov. 19, 1975, figures are adjusted to include waivers of penalties for reserve deficiences, in accordance with change in Board policy that became effective Nov. 19, 1975.

NOTE. For a description of figures and discussion of their significance, see "Member Bank Reserves and Related Items," Section 10 of *Banking and Monetary Statistics, 1941-1970* (Board of Governors of the Federal Reserve System, September 1, 1976), pp. 507-23.

Type of office and change	All banks	Commercial banks (including stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember			
			Total	National	State	Insured	Noninsured	Insured	Noninsured
Banks, Dec. 31, 1978....	**15,177**	**14,712**	**5,564**	**4,564**	**1,000**	**8,815**	**333**	**325**	**140**
Changes during 1979									
New banks	239	237	73	42	31	131	33	2	......
Voluntary liquidations	−2	−2	......	......	......	......	−2	......	......
Ceased banking operations	−6	−6	......	......	......	−2	−4	......	......
Banks converted into branches	−221	−217	−128	−97	−31	−89	......	−4	......
Other	−16	−16	−10	−9	−1	−6	......	......	......
Interclass changes									
Nonmember to national	......	......	1	1	......	−1	......	......	......
Nonmember to state member	......	......	6		6	−6	......	......	......
State member to nonmember	......	......	−29	......	−29	29	......	......	......
National to nonmember	......	......	−53	−53	......	53	......	......	......
Noninsured non-member to state member	......	......	1	......	1	......	−1	......	......
Noninsured to insured	......	......	......	......	......	2	−2	......	......
Noninsured mutual to insured mutual	......	......	......	......	......	......	......	1	−1
Net change	**−6**	**−4**	**−139**	**−116**	**−23**	**111**	**24**	**−1**	**−1**
Dec. 31, 1979	**15,171**	**14,708**	**5,425**	**4,448**	**977**	**8,926**	**357** [1]	**324**	**139**
Branches and additional offices, Dec. 31, 1978 [2] **............**	**36,930**	**34,390**	**22,685**	**17,974**	**4,711**	**11,654**	**51**	**2,191**	**349**
Changes during 1979									
De novo	2,415	2,061	1,051	890	161	1,009	1	342	12
Banks converted	219	215	175	134	41	40	......	4	......
Discontinued	−308	−282	−207	−161	−46	−74	−1	−25	−1
Sale of branch	......	......	−1	−3	2	1	......	......	......
Interclass changes									
Nonmember to national	......	......	104	104	......	−104	......	......	......
Nonmember to state member	......	......	60	......	60	−60	......	......	......
State member to national	......	......	......	84	−84	......	......	......	......
State member to nonmember	......	......	−79	......	−79	79	......	......	......
National to state member	......	......	......	−95	95	......	......	......	......
National to nonmember	......	......	−270	−270	......	270	......	......	......
Noninsured mutual to insured mutual	......	......	......	......	......	......	......	1	−1
Facilities reclassified as branches	1	1	1	1	......	......	......	......	......
Other	20	18	24	16	8	−6	......	2	
Net change	**2,347**	**2,013**	**858**	**700**	**158**	**1,155**	**......**	**324**	**10**
Dec. 31, 1979 [2] **.........**	**39,277**	**36,403**	**23,543**	**18,674**	**4,869**	**12,809**	**51**	**2,515**	**359**
Banking facilities, Dec. 31, 1978[3] **.....**	**168**	**168**	**145**	**134**	**11**	**23**	......	......	......
Changes during 1979									
Established	2	2	2	2	......	......	......	......	......
Discontinued	−3	−3	−3	−3	......	......	......	......	......
Interclass changes									
National to state member	......	......	......	−2	2	......	......	......	......
Facilities reclassified as branches	−1	−1	−1	−1	......	......	......	......	......
Net change	**−2**	**−2**	**−2**	**−4**	**2**	......	......	......	......
Dec. 31, 1979 [3] **.........**	**166**	**166**	**143**	**130**	**13**	**23**	......	......	......

1. As of Dec. 31, 1979, 13 state member noninsured trust companies are included.
2. Figures exclude banking facilities.
3. Data include facilities provided at military and other government establishments through arrangements made by the Treasury.

[illegible] Number of Par and Nonpar Banking Offices, December 31, 1979

Area	Total		Par						Nonpar (nonmember)	
			Total		Member		Nonmember			
	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices
	Federal Reserve district									
Boston	357	2,175	357	2,175	170	1,087	187	1,088	.....	.....
New York	453	4,873	453	4,873	234	4,055	219	818	.....	.....
Philadelphia	363	2,394	363	2,394	224	1,443	139	951	.....	.....
Cleveland	680	3,125	680	3,125	393	2,514	287	611	.....	.....
Richmond	721	4,872	721	4,872	373	2,983	348	1,889	.....	.....
Atlanta	1,844	4,013	1,838	4,009	579	2,057	1,259	1,952	6	4
Chicago	2,780	4,165	2,780	4,165	898	2,461	1,882	1,704	.....	.....
St. Louis	1,445	1,896	1,445	1,896	394	859	1,051	1,037	.....	.....
Minneapolis	1,424	711	1,424	711	511	383	913	328	.....	.....
Kansas City	2,293	1,134	2,293	1,134	801	679	1,492	455	.....	.....
Dallas	1,586	512	1,585	512	708	195	877	317	1	.....
San Francisco	587	6,948	587	6,948	140	5,020	447	1,928	.....	.....
TOTAL	**14,533**	**36,818**	**14,526**	**36,814**	**5,425**	**23,736**	**9,101**	**13,078**	**7**	**4**
	State									
Alabama	317	575	317	575	123	383	194	192	.....	.....
Alaska	12	109	12	109	6	82	6	27	.....	.....
Arizona	22	505	22	505	3	335	19	170	.....	.....
Arkansas	259	392	259	392	74	203	185	189	.....	.....
California	242	4,082	242	4,082	49	3,093	193	989[1]	.....	.....
Colorado	307	97	307	97	166	64	141	33	.....	.....
Connecticut	65	593	65	593	21	287	44	306	.....	.....
Delaware	18	147	18	147	6	5	12	142		
District of Columbia	17	140	17	140	16	138	1	2	.....	.....
Florida	575	945	575	945	249	462	326	483	.....	.....
Georgia	439	830	439	830	72	443	367	387	.....	.....
Hawaii	9	160	9	160	3	11	6	149	.....	.....
Idaho	27	236	27	236	11	190	16	46	.....	.....
Illinois	1,282	452	1,282	452	472	238	810	214	.....	.....
Indiana	405	1,082	405	1,082	159	561	246	521		
Iowa	656	538	656	538	139	182	517	356	.....	.....
Kansas	617	254	617	254	167	131	450	123	.....	.....
Kentucky	343	696	343	696	88	356	255	340	.....	.....
Louisiana	262	764	255	760	61	344	194	416	7	4
Maine	41	300	41	300	17	148	24	152	.....	.....
Maryland	102	903	102	903	36	463	66	440	.....	.....
Massachusetts	148	937	148	937	78	491	70	446	.....	.....
Michigan	372	2,001	372	2,001	202	1,485	170	516	.....	.....
Minnesota	760	227	760	227	237	118	523	109	.....	.....
Mississippi	182	667	182	667	43	282	139	385	.....	.....
Missouri	721	415	721	415	145	107	576	308	.....	.....
Montana	162	28	162	28	101	18	61	10	.....	.....
Nebraska	454	236	454	236	125	175	329	61	.....	.....
Nevada	9	135	9	135	5	126	4	9	.....	.....
New Hampshire	77	146	77	146	40	97	37	49	.....	.....
New Jersey	176	1,555	176	1,555	108	1,208	68	347	.....	.....
New Mexico	86	238	86	238	46	137	40	101	.....	.....
New York	295	3,388	295	3,388	162	3,096	133	[1]292	.....	.....
North Carolina	82	1,723	82	1,723	28	841	54	882	.....	.....
North Dakota	173	123	173	123	44	47	129	76	.....	.....
Ohio	408	2,105	408	2,105	270	1,807	138	298	.....	.....
Oklahoma	494	247	494	247	207	188	287	59	.....	.....
Oregon	79	551	79	551	11	340	68	211	.....	.....
Pennsylvania	375	2,479	375	2,479	235	1,621	140	858	.....	.....
Rhode Island	16	230	16	230	5	117	11	113	.....	

Area	Total		Par						Nonpar (nonmember)	
			Total		Member		Nonmember			
	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices
	State—Continued									
South Carolina	85	688	85	688	25	359	60	329	......	......
South Dakota	154	158	154	158	60	114	94	44	......	......
Tennessee	351	991	351	991	79	460	272	531	......	......
Texas	1,427	233	1,427	233	656	70	771	163	......	......
Utah	74	272	74	272	27	218	47	54	......	......
Vermont	29	159	29	159	13	44	16	115	......	......
Virginia	233	1,371	233	1,371	150	1,154	83	217	......	......
Washington	109	884	109	884	25	619	84	265	......	......
West Virginia	233	59	233	59	136	35	97	24	......	......
Wisconsin	631	500	631	500	158	185	473	315	......	......
Wyoming	94	3	94	3	66	1	28	2	......	......
	Other area									
American Samoa[2]	1	1	1	1	......	......	1	1	......	......
Guam[2]	3	13	3	13		6	3	7	......	......
Puerto Rico[3]	17	229	17	229	......	25	17	204	......	......
Virgin Islands[3]	6	26	6	26	......	26	6	......	......	......

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[1] Includes 1 Los Angeles branch and 18 New York City branches of 3 insured nonmember Puerto Rican banks.

[2] American Samoa and Guam assigned to the San Francisco District for check-clearing and collection purposes. All member branches in Guam are branches of California and New York banks.

[3] Puerto Rico and the Virgin Islands assigned to the New York District for check-clearing and collection purposes. All member branches in Puerto Rico and the Virgin Islands are branches of banks located in California, New York, and Pennsylvania. Certain branches of Canadian banks (1 in Puerto Rico and 5 in the Virgin Islands) are included above as nonmember banks; and nonmember branches in Puerto Rico include 8 other branches of Canadian banks.

NOTE. Comprises all commercial banking offices on which checks are drawn, including 166 banking facilities. Number of banks and branches differs from that in table 18 because this table includes banks in Guam, Puerto Rico, and the Virgin Islands but excludes banks and trust companies on which no checks are drawn.

Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors during 1979

Name of bank, type of transaction, and other banks involved [1]	Assets (millions of dollars)	Number of banking offices		Page for Attorney General's and Board's actions
		In operation	To be operated	
Bank of Virginia—Central Valley, Verona, Va.	(2)	(2)	2	352
Merger				
Community Bank and Trust Company of Augusta County, Verona, Va.	8	2		
Central Bank of Norther Virginia, Bailey's Crossroads, Va.	57	8	12	343
Merger				
First Manassas Bank and Trust Company, Manassas, Va.	26	4		
Central Fidelity Bank, Bailey's Crossroads, Va.	90	14	18	351
Merger				
Central Fidelity Bank, NA, Herndon, Va.	31	4		
Central Trust Company, Reynoldsburg, Ohio	100	10	16	344
Merger				
Central Trust Company of Zanesville, Zanesville, Ohio	55	6		
Colonial American Bank, Lynchburg, Va.	(2)	(2)	1	347
Merger				
Metropolitan Bank of Central Virginia, Lynchburg, Va.	7	1		
Commercial Trust Company of New Jersey, Jersey City, N.J.	346	18	29	346
Acquisition of certain assets and assumption of certain liabilities of				
Community State Bank and Trust Company, Linden, N.J.	163	11		
Cortland Savings and Banking Company, Cortland, Ohio	108	4	6	350
Merger				
Western Reserve Bank of Portage County, Windham, Ohio	12	2		
Elliott State Bank, Jacksonville, Ill.	122	3	3	345
Merger				
First National Bank of Jacksonville, Jacksonville, Ill.	41	2		
Exchange Bank of Temple Terrace, Temple Terrace, Fla.	51	4	10	353
Merger				
Exchange National Bank of Tampa, Tampa, Fla.	393	6		

For notes see p. 342

Name of bank, type of transaction, and other banks involved [1]	Assets (millions of dollars)	Number of banking offices		Page for Attorney General's and Board's actions
		In operation	To be operated	
FM State Bank, Sebewaing, Mich.	(2)	(2)	3	355
Merger				
Farmers and Merchants State Bank of Sebewaing, Sebewaing, Mich.	30	3		
Fidelity American Bank, Norfolk, Va.	296	33	36	343
Merger				
Fidelity American Bank, Eastern Shore, Parksley, Va.	19	3		
Fidelity American Bank, Norfolk, Va.	315	36	40	348
Merger				
First National Bank of Yorktown, Yorktown, Va.	19	4		
Fidelity Union Trust Company, Newark, N.J.	1,154	33	35	352
Acquisition of certain assets and assumption of certain liabilities of				
Livingston State Bank, Livingston, N.J.	15	2		
First City Bank of Dallas, Dallas, Tex.	537	1	1	347
Merger				
United National Bank, Dallas, Tex.	103	1		
Jefferson Bank of the Valley, Fisherville, Va.	(2)	(2)	3	349
Acquisition of certain assets and assumption of certain liabilities of				
Three branches of National Bank and Trust Company, Charlottesville, Va.	16	3		
MCB Bank, Dundee, Mich.	(2)	(2)	3	354
Merger				
Monroe County Bank, Dundee, Mich.	22	3		
Midwest Bank & Trust Company, Cleveland, Ohio	103	3	6	354
Merger				
Firelands Community Bank, Huron, Ohio	48	3		
Midwest Bank & Trust Company, Cleveland, Ohio	103	5	7	345
Merger				
Midwest Bank & Trust Company of Portage County, Aurora, Ohio	10	2		

For notes see p. 342

Name of bank, type of transaction, and other banks involved [1]	Assets (millions of dollars)	Number of banking offices		Page for Attorney General's and Board's actions
		In operation	To be operated	
NB State Bank, Keysville, Va.	(2)	(2)	1	348
Merger				
State Bank of Keysville, Keysville, Va.	17	1		
Naumkeag Trust Company, Salem, Mass.	47	8	11	349
Merger				
Merchants National Bank of Newburyport, Newburyport, Mass.	11	3		
New Citizens Bank, Baytown, Tex.	(2)	(2)	1	346
Merger				
Citizens Bank and Trust Company of Baytown, Baytown, Tex.	107	1		
Ohio Citizens Trust Company, Toledo, Ohio	522	20	22	348
Merger				
Peoples State Bank, Wauseon, Ohio	33	2		
SBT Bank, Petoskey, Mich.	(2)	(2)	5	354
Consolidation				
State Bank and Trust Company of Petoskey, Petoskey, Mich.	68	5		
Southern Bank, Richmond, Va.	245	18	24	352
Merger				
NB Bank of Richmond, Henrico County, Va.	19	6		
Union Bank, Los Angeles, Calif.	5,412	26	59	345
Consolidation				
Chartered Bank of London, San Francisco, Calif.	679	33		
Union Savings Bank and Trust Company, Steubenville, Ohio	64	5	6	350
Merger				
Scio Bank Company, Scio, Ohio	16	1		
United California Bank, Los Angeles, Calif.	13,191	296	303	353
Merger				
Gavilan Bank, Gilroy, Calif.	66	7		
United California Bank, Los Angeles, Calif.	13,157	272	278	344
Merger				
Sierra National Bank, Petaluma, Calif.	34			

For notes see p. 342

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Name of bank, type of transaction, and other banks involved [1]	Assets (millions of dollars)	Number of banking offices: In operation	Number of banking offices: To be operated	Page for Attorney General's and Board's actions
United Jersey Bank, Hackensack, N.J.	1,511	43	45	350
Merger				
United Jersey Bank/Par-Troy, Parsippany, N.J.	33	2		
United Jersey Bank, Hackensack, N.J.	1,478	40	43	343
Merger				
United Jersey Bank/South Bergen, Carlstadt, N.J.	33	3		
United Virginia Bank/Commonwealth, Richmond, Va.	(2)	(2)	160	352
Merger				
United Virginia Bank, Richmond, Va.	960	34		
United Virginia Bank of Charlottesville, Charlottesville, Va.	20	3		
United Virginia Bank of Gloucester, Gloucester, Va.	48	2		
United Virginia Bank of Roanoke, N.A., Roanoke County, Va.	61	7		
United Virginia Bank of Spotsylvania, Spotsylvania Court House, Va.	12	3		
United Virginia Bank of Williamsburg, Williamsburg, Va.	80	7		
United Virginia Bank/Citizens & Marine, Newport News, Va.	164	14		
United Virginia Bank/Citizens of South Boston, South Boston, Va.	31	2		
United Virginia Bank/First National, Lynchburg, Va.	136	8		
United Virginia Bank/National, Vienna, Va.	619	38		
United Virginia Bank/National Valley, Staunton, Va.	52	4		
United Virginia Bank/Peoples of Gretna, Gretna, Va.	26	1		
United Virginia Bank/Rockbridge, Lexington, Va.	29	3		
United Virginia Bank/Seaboard National, Norfolk, Va.	444	31		
United Virginia Bank/Spotswood, Rockingham County, Va.	54	3		
Walker Bank and Trust Company, Salt Lake City, Utah	673	29	32	351
Merger				
Milford State Bank, Milford, Utah	18	3		

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[1] Each proposed transaction was to be effected under the charter of the first-named bank. This table is in alphabetical order; the notes appear in chronological order of approval.

[2] This is a newly organized bank, not in operation.

United Jersey Bank, Hackensack, N.J., ***to merge with*** **United Jersey Bank/South Bergen, Carlstadt, N.J.**

Summary Report by the Attorney General (1-5-79)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

Basis for Approval by the Federal Reserve Bank (1-9-79)

United Jersey Bank, with deposits of $1.1 billion, and United Jersey Bank/South Bergen, with deposits of $30 million, have requested approval to merge. Both banks are wholly owned subsidiaries of United Jersey Banks, Princeton, New Jersey. This holding company is the second largest banking organization in the state, and has consolidated assets of $2.3 billion.

The proposed merger would have no adverse competitive effects, and banking factors are consistent with approval. The merger should produce certain operating efficiencies, and a broader range of services would be available at the offices now operated by the smaller bank. Thus, the convenience and needs factor lends slight weight to approval.

Central Bank of Northern Virginia, Bailey's Crossroads, Va., ***to merge with*** **First Manassas Bank and Trust Company, Manassas, Va.**

Summary Report by the Attorney General (1-5-79)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

Basis for Approval by the Federal Reserve Bank (1-15-79)

Central Bank of Northern Virginia, with deposits of about $55 million, and First Manassas Bank and Trust Company, with deposits of about $22 million, have requested approval to merge. Both are wholly owned subsidiaries of Central National Corporation, Richmond, Virginia. On October 31, 1978, the Board approved the merger of Central National Corporation with Fidelity American Bankshares, Inc. Upon consummation, the resulting holding company will be the sixth largest banking organization in Virginia, with 7.8 percent of the total commercial bank deposits in the state.

The proposed merger would have no adverse competitive effects, and the banking factors are satisfactory. The proposed merger should result in more efficient operations and enable the resulting bank to make larger loans without participations.

Fidelity American Bank, Norfolk, Va., ***to merge with*** **Fidelity American Bank, Eastern Shore, Parksley, Va.**

Summary Report by the Attorney General (1-5-79)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

Basis for Approval by the Federal Reserve Bank (1-25-79)

Fidelity American Bank, Norfolk, with deposits of $217 million, and Fidelity American Bank, Eastern Shore, with deposits of $16 million, are requesting approval to merge. Both banks are subsidiaries of Commonwealth Banks, Inc., Richmond, Virginia, and, therefore, the transaction would have no adverse competitive effects.

The financial and managerial resources and prospects of the banks proposing to merge and of the resulting institution are consistent with approval of the application. So, too, is the convenience and needs factor, as the resulting bank would have an increased lending base, fewer overlapping services and functions, and its organization would permit more efficient operation.

The Central Trust Company, Reynoldsburg, Ohio, ***to merge with*** **The Central Trust Company of Zanesville, Zanesville, Ohio**

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-5-79)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (2-14-79)

The Central Trust Company, with deposits of $85 million, and The Central Trust Company of Zanesville, with deposits of $49 million, are requesting approval to merge. The banks are subsidiaries of The Central Bancorporation, Inc., Cincinnati, Ohio, and, thus, the transaction would have no adverse competitive effects.

Both banks are in satisfactory condition, and the financial and managerial considerations, as well as the convenience and needs factor, are consistent with approval.

United California Bank, Los Angeles, Calif., ***to merge with*** **Sierra National Bank, Petaluma, Calif.**

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-30-79)

We have reviewed this proposed transaction and conclude that it would not have any adverse effect upon competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (2-22-79)

United California Bank (Applicant), with deposits of $7.7 billion, proposes to merge with the Sierra National Bank (Sierra), with deposits of $32 million. Applicant, a subsidiary of Western Bancorporation, is the fifth largest bank in California, with 7.2 percent of the total commercial bank deposits.

Applicant operates throughout the state, with the largest number of offices being in southern California. Sierra operates six offices in California, five in the San Francisco and one in the Santa Rosa metropolitan banking market; Applicant operates in both markets. In the San Francisco metropolitan banking market, the nearest offices of proponents are four miles apart; in the Santa Rosa market, nine miles apart. In the San Francisco market, Applicant holds 2.96 percent of the total deposits and Sierra only 0.08 percent. In the Santa Rosa market, Applicant holds 2.4 percent of the deposits to Sierra's 1 percent. While the proposal to merge would eliminate a small amount of competition, numerous alternatives will remain, and the resulting bank will still hold only a small share of the deposits in the two relevant markets. The overall competitive effect is viewed as slightly adverse.

If the merger is approved, Applicant, with its larger resources and lending limits, would offer a wider range of services to Sierra's customers. A somewhat weak competitor would be replaced by a strong one. In Marin County especially, large credits are needed to finance the development of ongoing residential tracts, as well as industrial projects. Applicant also would introduce specialized services, such as bank cards and trust services and the instantaneous verification of customers' demand and savings accounts between branches by the use of computers at tellers' stations, and would continue the convenient banking hours that were established by Sierra while conducting a study to determine whether automatic tellers would be as effective as longer banking hours. The convenience and needs factor thus appears sufficiently substantive to outweigh a small negative impact on competition.

Applicant's capital position is viewed as less than satisfactory although it is not of serious concern in view of the bank's strength of management and history of earnings. But, because consummation of the proposed merger would have little, if any, effect on Applicant's condition, it is believed that the banking factors are consistent with approval.

Elliott State Bank, Jacksonville, Ill., *to merge with* First National Bank of Jacksonville, Jacksonville, Ill.

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-26-79)

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-2-79)

In view of the financial condition of First National Bank of Jacksonville and on the basis of information before the Board, it is apparent that a situation exists that requires expeditious action pursuant to section 1828(c) of the Bank Merger Act in order to safeguard the depositors of this bank.

While the Board would prefer a less anticompetitive merger, it appears that one is not readily available. Thus, banking factors and convenience and needs considerations lend such significant weight toward approval as to clearly outweigh, in the public interest, the substantially adverse effects. It is the Board's judgment that any disposition of the application other than approval would be inconsistent with the public interest.

Union Bank, Los Angeles, Calif., *to consolidate with* The Chartered Bank of London, San Francisco, Calif.

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-5-79)

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-16-79)

The proposal is a transaction to facilitate the acquisition of Union Bank by Standard Chartered Limited and Standard Chartered Overseas Holdings Limited, both of London, England, and Standard Chartered Bancorp, San Francisco (California), all bank holding companies.

The proposed merger of Union Bank and The Chartered Bank of London would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

The Midwest Bank & Trust Company, Cleveland, Ohio, *to merge with* The Midwest Bank & Trust Company of Portage County, Aurora, Ohio

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-9-79)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (3-23-79)

The Midwest Bank & Trust Company, with deposits of $78 million, proposes to merge with The Midwest Bank & Trust Company of Portage County, which has deposits of $9 million. Both banks are subsidiaries of Midwest Bancorporation, Inc., Cleveland, Ohio. Consummation of the transaction would have no adverse competitive effects. Banking factors and the convenience and needs factors are consistent with approval of the application.

New Citizens Bank, Baytown, Tex., *to merge with* Citizens Bank and Trust Company of Baytown, Baytown, Tex.

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-30-79)

The proposal is a transaction to facilitate the acquisition of Citizens Bank and Trust Company of Baytown by Citizens Bankers, Inc., Baytown, Texas, a bank holding company.

The proposed merger with New Citizens Bank would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

Commercial Trust Company of New Jersey, Jersey City, N.J., *to acquire certain assets and assume certain liabilites of* Community State Bank and Trust Company, Linden, N.J.

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-30-79)

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (4-6-79)

The proposed acquisition involves Commercial Trust Company of New Jersey (Applicant), with deposits of $300 million, and Community State Bank and Trust Company (Bank), with deposits of $148 million. Applicant is the twenty-sixth largest banking organization in the state, with 1 percent of the total commercial banking deposits. Applicant, which operates 18 offices, derives 91 percent of its deposits from the metropolitan New York market, and is also represented in the Plainfield, Paterson, and Greater Newark markets. Bank is the thirty-fourth largest commercial banking organization in the state. It has six branch offices in the Greater Newark market, where it ranks eleventh, with 1.9 percent of the deposits; and operates four branch offices and one regional loan production office in the Asbury Park market.

Applicant operates one office that holds less than 1 percent of the deposits in the Greater Newark market, and operates no offices in the Asbury Park market. The nearest offices of the merging banks are approximately 18 miles apart. While the proposed acquisition would foreclose the possibility of some increased future competition between these banks, many of the state's largest banking organizations are already represented in these markets. The overall competitive effect of the proposed acquisition would be slightly adverse.

The financial and managerial resources and future prospects of Applicant and Bank are satisfactory, as they also are for the resulting institution. Thus, considerations relating to such factors are regarded as being consistent with approval of the application.

The convenience and needs factor also lends some weight to approval. Applicant has indicated that it will increase the interest rate on passbook savings accounts at Bank's offices from 4½ to 5 percent and will offer trust services, automatic teller devices, and other customer computer services in the offices that are currently operated by Bank.

First City Bank of Dallas, Dallas, Tex., *to merge with* United National Bank, Dallas, Tex.

SUMMARY REPORT BY THE ATTORNEY GENERAL (9-21-78)

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (5-2-79)

Although the physical plant of United National Bank limits its ability to provide the services expected of a full-service bank, and consequently limits its potential to become a full-service competitor within the Dallas banking market, it appears that approval of this application would result in a slight increase in the concentration of banking resources within the pertinent banking market and would remove one independent competitor. Therefore, because of such a negative effect, the Board concludes that competitive considerations are slightly adverse.

The Board has examined the information of record concerning the financial and managerial resources of First City Bank of Dallas (Applicant), United National Bank (Bank), and First City Bancorporation of Texas, Inc., the parent holding company of Applicant, and concludes that the financial and managerial resources and future prospects of the institutions involved are satisfactory.

In its submissions on the convenience and needs of the community to be served, Applicant has stated that, although Bank must cease operation after consummation of the merger, as required by State law, it intends to maintain a trust office at Bank's location and will offer Bank's customers the following services in addition to those that it currently offers: an increased lending capacity, specialized lending services, trust services, electronic data processing, investment services, and improved facilities. Applicant will provide these services either directly, or indirectly through First City Bancorporation of Texas, Inc., and its other subsidiaries. Therefore, because more banking service alternatives will be available to the community, the Board finds that considerations relating to the convenience and needs of the community to be served are consistent with approval.

After considering the competitive effects, the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served, the Board finds that consummation of the proposal would be consistent with the public interest.

Colonial American Bank, Lynchburg, Va., *to merge with* Metropolitan Bank of Central Virginia, Lynchburg, Va.

SUMMARY REPORT BY THE ATTORNEY GENERAL (4-20-79)

The proposed merger is part of a plan through which Metropolitan Bank of Central Virginia, Lynchburg, would become a subsidiary of Colonial American Bankshares Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [Colonial American Bank]; as such, and without regard to the acquisition of the surviving bank by Colonial American Bankshares Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (5-14-79)

The proposal is a transaction to facilitate the acquisition of Metropolitan Bank of Central Virginia by Colonial American Bankshares Corporation.

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

NB State Bank, Keysville, Va., *to merge with* State Bank of Keysville, Keysville, Va.

SUMMARY REPORT BY THE ATTORNEY GENERAL (4-20-79)

The proposed merger is part of a plan through which State Bank of Keysville would become a subsidiary of NB Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [NB State Bank]; as such, and without regard to the acquisition of the surviving bank by NB Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (5-24-79)

The proposal is a transaction to facilitate the acquisition of State Bank of Keysville by NB Corporation, Charlottesville.

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

Fidelity American Bank, Norfolk, Va., *to merge with* The First National Bank of Yorktown, Yorktown, Va.

SUMMARY REPORT BY THE ATTORNEY GENERAL (Undated)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (5-30-79)

Fidelity American Bank (Applicant) and The First National Bank of Yorktown are wholly owned subsidiaries of Commonwealth Banks, Inc., Richmond, Virginia. The holding company is the sixth largest financial institution in Virginia, with 7.6 percent of the total commercial bank deposits in the state. There are no competitive considerations involved. The financial and managerial resources and future prospects of Applicant are considered good. Considerations of the convenience and needs of the communities to be served are consistent with approval.

The Ohio Citizens Trust Company, Toledo, Ohio, *to merge with* The Peoples State Bank, Wauseon, Ohio

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-1-79)

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (5-31-79)

The Ohio Citizens Trust Company (Applicant), with deposits of $392 million, proposes to merge The Peoples State Bank (Bank).

Bank is the second largest banking organization in the Fulton County banking market, with 16.2 percent of the deposits. Since proponents are located in separate banking markets, no significant competition would be eliminated by consummation of the proposal to merge. The Fulton County banking market does not appear attractive for entry by *de novo* branching.

The financial and managerial resources and future prospects of Applicant are regarded as satisfactory, and those of Bank, as generally satisfactory. The financial and managerial resources of the resulting institution also would be satisfactory.

With respect to the convenience and needs factor, Bank's customers would have access to Applicant's higher lending limit, thereby enabling Bank to meet the credit needs of its large commercial and agricultural customers. In addition, Applicant would offer a number of new and expanded services, including trust services, leasing, cash management, payroll and account reconciliation services, and financing for mobile homes, and indirect installment lending.

Jefferson Bank of the Valley, Fishersville, Va., ***to acquire certain assets and assume certain liabilities of*** **three branches of National Bank and Trust Company, Charlottesville, Va.**

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-22-79)

This proposed transaction is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (6-21-79)

The proposed transaction constitutes an internal corporate reorganization by NB Corporation, under which the three Augusta County branches of its wholly owned subsidiary National Bank and Trust Company would be spun off into Jefferson Bank of the Valley, a *de novo* bank that the holding company proposes to acquire.

The proposed transaction would result in no change in the holding company's relative position in Virginia or in Augusta County, and would have no adverse effects on existing or potential competition in any relevant geographic market.

The financial and managerial resources and future prospects of the institutions involved have been considered and are consistent with approval of the application. Considerations relating to the convenience and needs of the communities to be served are likewise consistent with approval.

Naumkeag Trust Company, Salem, Mass., ***to merge with*** **The Merchants National Bank of Newburyport, Newburyport, Mass.**

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-26-79)

We have reviewed this proposed transaction and conclude that it would not have an adverse effect upon competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (7-17-79)

Naumkeag Trust Company, with deposits of $36 million, proposes to merge with The Merchants National Bank of Newburyport (Merchants National), with total deposits of about $9 million. The nearest offices of the banks are 21 miles apart, and there would appear to be little competition between them. Both operate in the Boston banking market, and the resulting bank will hold 0.4 percent of the deposits in that market.

The banking factors are consistent with approval of the application. The resulting bank will offer new services at the offices of Merchants National, and the convenience and needs factor lends some weight to approval.

United Jersey Bank, Hackensack, N.J., ***to merge with*** **United Jersey Bank/Par-Troy, Parsippany, N.J.**

SUMMARY REPORT BY THE ATTORNEY GENERAL (6-27-79)

The merging banks are both subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (7-17-79)

United Jersey Bank proposes to merge with United Jersey Bank/Par-Troy. Both banks are subsidiaries of United Jersey Banks, Princeton, New Jersey.

The proposal would have no adverse competitive effects, and the banking and convenience and needs factors are consistent with approval of the application.

The Cortland Savings and Banking Company, Cortland, Ohio, ***to merge with*** **Western Reserve Bank of Portage County, Windham, Ohio**

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-19-79)

We have reviewed this proposed transaction and conclude that it would not have a substantial competitive impact.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (8-14-79)

The proposed merger involves The Cortland Savings and Banking Company (Applicant), with deposits of $84 million, and Western Reserve Bank of Portage County (Bank), with deposits of $11 million. Applicant operates its four offices throughout Trumbull County, and Bank operates two offices in Portage County, which adjoins Trumbull County; these areas are situated in northeastern Ohio, in the vicinity of Warren. The nearest offices of the banks are approximately 20 miles apart. Applicant and Bank operate in contiguous but separate banking markets. Bank, with approximately 25 percent of the market deposits, is the smallest of three banking organizations operating in its market.

Although Applicant could enter the Windham market by *de novo* branching, the market does not appear attractive. Bank similarly could enter the market served by Applicant, but does not appear likely to do so in the near future.

Applicant is considered in sound financial condition. Bank has a problem with management succession, as its officers are approaching retirement age and there is no one who could provide continuity of management.

The convenience and needs factor lends some weight to approval of the proposal. Applicant has indicated that it will offer more services, including a wider range of deposit accounts, additional types of credit, trust services, and data processing facilities, to the community served by Bank.

Union Savings Bank and Trust Company, Steubenville, Ohio, ***to merge with*** **Scio Bank Company, Scio, Ohio**

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-19-79)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (8-27-79)

Union Savings Bank and Trust Company (Applicant), with deposits of $58 million, proposes to merge with Scio Bank Company (Bank), with deposits of $4 million. Both banks involved are subsidiaries of CleveTrust Corporation, Cleveland, Ohio.

The proposal would have no adverse competitive effects. Convenience and needs considerations, including those relating to the Community Reinvestment Act, and the banking factors are consistent with approval of the application. Applicant will offer some additional services in Bank's service area, including trust services, "floor-plan" lending, and automatic transfers between accounts.

Central Fidelity Bank, Bailey's Crossroads, Va., ***to merge with*** **Central Fidelity Bank, NA, Herndon, Va.**

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-19-79)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (9-7-79)

Central Fidelity Bank, with deposits of $68 million, proposes to merge with Central Fidelity Bank, NA, with deposits of $25 million. Both banks are subsidiaries of Central National Corporation, Richmond, Virginia.

The proposed merger would have no adverse competitive effects. It should result in more efficient operations and enable the resulting bank to make larger loans without participations. At present, the general condition of each bank is satisfactory.

Walker Bank and Trust Company, Salt Lake City, Utah, ***to merge with*** **Milford State Bank, Milford, Utah**

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-14-79)

Walker Bank and Trust Company (Applicant), the third largest bank in Utah, controls 12.1 percent of the total commercial bank deposits in the state. Since Milford State Bank (Milford Bank) holds only 0.4 percent of such deposits, the proposal to merge would have no appreciable effect on the concentration of banking resources in Utah.

Milford Bank is the only bank in the relevant banking market, which is approximated by Beaver County, Utah. No significant competition exists between the banks because none of Applicant's banking offices is located in this market; the closest office is 48 miles away. It also appears unlikely that any significant competition would develop in the future because Applicant is prevented, under the state's home office protection laws, from establishing a branch in Beaver County. Thus, consummation of the transaction would have no significant adverse effects on competition.

After examining the information of record concerning the financial and managerial resources of Applicant and Milford Bank, the Board concludes that such resources and future prospects of both institutions involved are satisfactory. The same would be true of the resulting institution. Affiliation with Applicant would give Milford Bank access to Applicant's financial and managerial resources and would provide an expanded line of banking services. Therefore, considerations relating to the convenience and needs of the community to be served lend some weight toward approval of the application. Based upon the foregoing and other considerations reflected in the record, it is the Board's judgment that the proposed acquisition is in the public interest and should be approved.

Bank of Virginia—Central Valley, Verona, Va., ***to merge with*** **Community Bank and Trust Company of Augusta County, Verona, Va.**

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-13-79)

The proposed merger is part of a plan through which Community Bank and Trust Company of Augusta County would become a subsidiary of Bank of Virginia Company, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [Bank of Virginia—Central Valley]; as such, and without regard to the acquisition of the surviving bank by Bank of Virginia Company, it would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (9-26-79)

The proposal is a transaction to facilitate the acquisition of Community Bank and Trust Company of Augusta County, by Bank of Virginia Company.

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

United Virginia Bank/Commonwealth, Richmond, Va., ***to merge with*** **15 banking subsidiaries of United Virginia Bankshares Incorporated, Richmond, Va.**

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (9-27-79)

All banks involved in this proposal are subsidiaries of the same bank holding company. The proposed transaction is essentially a corporate reorganization and would have no effect on competition. The financial and convenience and needs factors are consistent with approval of the application.

Fidelity Union Trust Company, Newark, N.J., ***to acquire certain assets and assume certain liabilities of*** **Livingston State Bank, Livingston, N.J.**

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received. Requests for reports on the competitive factors were dispensed with, as authorized by the Bank Merger Act, to permit the Federal Reserve Bank to act immediately in order to safeguard depositors of Livingston State Bank.)

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (10-2-79)

On the basis of information before the Federal Reserve Bank, it is apparent that an emergency situation exists so as to require immediate action pursuant to the provisions of the Bank Merger Act, in order to safeguard depositors of Livingston State Bank.

Southern Bank, Richmond, Va., ***to merge with*** **NB Bank of Richmond, Henrico County, Va.**

SUMMARY REPORT BY THE ATTORNEY GENERAL (9-19-79)

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect upon competition.

Basis for Approval by the Board of Governors (10-22-79)

The proposal by Southern Bank to merge with NB Bank of Richmond merely represents a corporate reorganization of subsidiaries of Jefferson Bankshares, Inc., Charlottesville, Virginia.

The proposed merger would have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

The Exchange Bank of Temple Terrace, Temple Terrace, Fla., ***to merge with*** **The Exchange National Bank of Tampa, Tampa, Fla.**

Summary Report by the Attorney General (9-19-79)

The merging banks are both subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

Basis for Approval by the Federal Reserve Bank (10-26-79)

Because The Exchange Bank of Temple Terrace (Applicant) and The Exchange National Bank (Other Bank) are subsidiaries of the same bank holding company, the proposed transaction is essentially a corporate reorganization and would have no effect on competition.

The financial condition and managerial resources of the banks are consistent with approval of the application. Future prospects also appear favorable. Since applicant proposes to provide additional trust services to the customers of both banks, the convenience and needs aspects are consistent with approval.

United California Bank, Los Angeles, Calif., ***to merge with*** **Gavilan Bank, Gilroy, Calif.**

Summary Report by the Attorney General (10-26-79)

We have reviewed this proposed transaction and conclude that it would not have an adverse effect on competition.

Basis for Approval by the Secretary, Board of Governors (11-7-79)

United California Bank (Applicant), with deposits of $7.8 billion, proposes to merge with Gavilan Bank (Gavilan), with deposits of $51 million. Applicant, a subsidiary of Western Bancorporation, is the fifth largest bank in California, holding 7 percent of the commercial bank deposits in the state. Gavilan operates seven offices in the San Francisco area: four are in the San Francisco–Oakland–San Jose metropolitan banking market and hold less than 1 percent of the deposits there. Applicant also operates in this market, and holds about 2 percent of such deposits. The nearest offices of the merging banks in this market are four miles apart, which makes it appear that there is a small amount of competition. Gavilan operates three offices in two other markets, holding 2 percent of the deposits in one and 6 percent in the other. Applicant is not represented in either market.

The condition of the resulting bank would be generally satisfactory, and the banking factors are consistent with approval of the application. With its larger resources and lending limits, Applicant would offer a wider range of services to Gavilan's customers. Thus, the convenience and needs factor also lends slight weight to approval.

MCB Bank, Dundee, Mich., *to merge with* Monroe County Bank, Dundee, Mich.

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-19-79)

The proposed merger is part of a plan through which Monroe County Bank would become a subsidiary of National Ann Arbor Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [MCB Bank]; as such, and without regard to the acquisition of the surviving bank by National Ann Arbor Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11-19-79)

The proposal is a transaction to facilitate the acquisition of Monroe County Bank by National Ann Arbor Corporation, Ann Arbor, Michigan.

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

SBT Bank, Petoskey, Mich., *to consolidate with* State Bank and Trust Company of Petoskey, Petoskey, Mich.

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-26-79)

The proposed merger is part of a plan through which State Bank and Trust Company would become a subsidiary of Old Kent Financial Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [SBT Bank]; as such, and without regard to the acquisition of the surviving bank by Old Kent Financial Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11-29-79)

The proposal is a transaction to facilitate the acquisition of State Bank and Trust Company of Petoskey by Old Kent Financial Corporation, Grand Rapids, Michigan.

The proposed consolidation would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

The Midwest Bank & Trust Company, Cleveland, Ohio, *to merge with* The Firelands Community Bank, Huron, Ohio

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-19-79)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (12-3-79)

The proposed merger involves The Midwest Bank & Trust Company, with deposits of $82 million, and The Firelands Community Bank, with deposits of $43 million. Both are subsidiaries of Midwest Bancorporation (of Ohio), Inc., Cleveland, Ohio. Consummation of the proposal would have no adverse competitive effects. The banks are in generally satisfactory condition, and the banking and convenience and needs factors are consistent with approval of the application.

FM State Bank, Sebewaing, Mich., ***to merge with*** **Farmers and Merchants State Bank of Sebewaing, Sebewaing, Mich.**

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-19-79)

The proposed merger is part of a plan through which Farmers and Merchants State Bank of Sebewaing would become a subsidiary of First American Bank Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [FM State Bank]; as such, and without regard to the acquisition of the surviving bank by First American Bank Corporation, it would have no effect on competition.

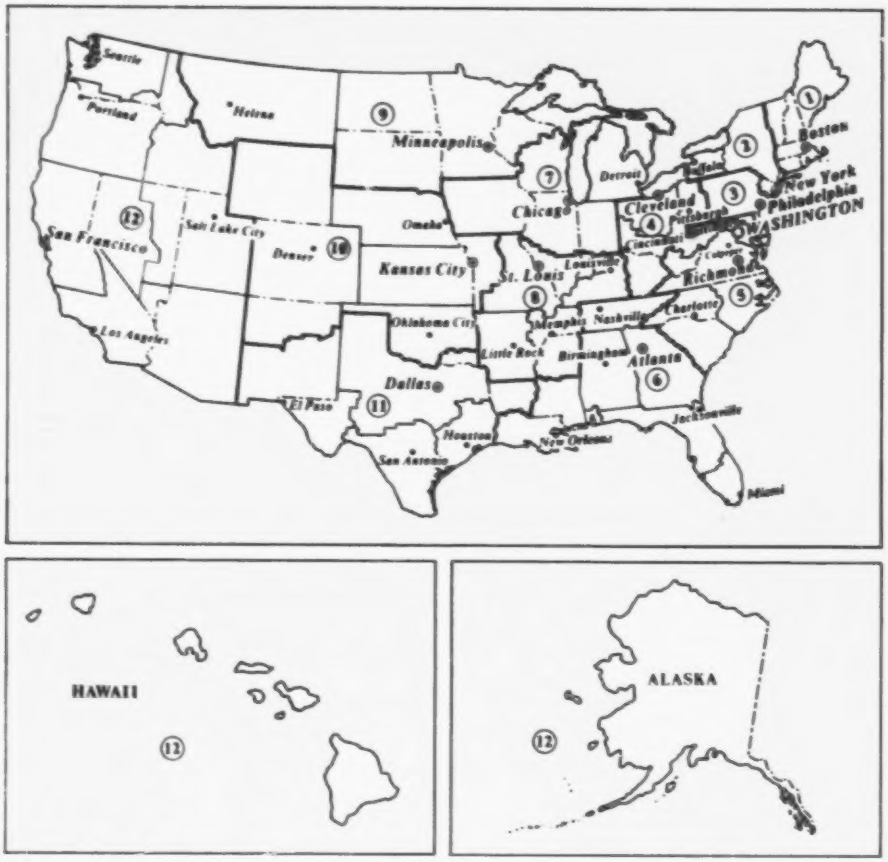
BASIS FOR APPROVAL BY THE SECRETARY, BOARD OF GOVERNORS (12-4-79)

The proposal is a transaction to facilitate the acquisition of Farmers and Merchants State Bank of Sebewaing by First American Bank Corporation, Kalamazoo, Michigan.

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

The Federal Reserve System

BOUNDARIES OF FEDERAL RESERVE DISTRICTS AND THEIR BRANCH TERRITORIES


Seattle
Portland
Helena
⑨
Minneapolis
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Detroit
Buffalo
①
Boston
②
New York
③
Philadelphia
WASHINGTON
Cleveland
④
Pittsburgh
Cincinnati
Chicago
Omaha
⑫
San Francisco
Salt Lake City
Denver
⑩
Kansas City
St. Louis
Louisville
Richmond
Baltimore
⑤
Charlotte
Nashville
⑧
Memphis
Little Rock
Oklahoma City
Birmingham
Atlanta
⑥
Los Angeles
Dallas
⑪
El Paso
Houston
San Antonio
New Orleans
Jacksonville
Miami
HAWAII
⑫
ALASKA
⑫

Legend

- —— Boundaries of Federal Reserve Districts
- —— Boundaries of Federal Reserve Branch Territories
- ○ Board of Governors of the Federal Reserve System
- ⊙ Federal Reserve Bank Cities
- • Federal Reserve Branch Cities
- · Federal Reserve Bank Facilities

Federal Reserve Directories and Meetings

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Board of Governors of the Federal Reserve System

December 31, 1979	*Term expires*
PAUL A. VOLCKER, of New Jersey, *Chairman* [1]	January 31, 1992
FREDERICK H. SCHULTZ, of Florida, *Vice Chairman* [1]	January 31, 1982
HENRY C. WALLICH, of Connecticut	January 31, 1988
PHILIP E. COLDWELL, of Texas	January 31, 1980
J. CHARLES PARTEE, of Virginia	January 31, 1986
NANCY H. TEETERS, of Indiana	January 31, 1984
EMMETT J. RICE, of New York	January 31, 1990

OFFICE OF BOARD MEMBERS

JOSEPH R. COYNE, *Asst. to the Board*
JAY PAUL BRENNEMAN, *Special Asst. to the Board*
FRANK O'BRIEN, JR., *Special Asst. to the Board*
JOSEPH S. SIMS, *Special Asst. to the Board*
DONALD J. WINN, *Special Asst. to the Board*

OFFICE OF STAFF DIRECTOR FOR MONETARY AND FINANCIAL POLICY

STEPHEN H. AXILROD, *Staff Director*
EDWARD C. ETTIN, *Deputy Staff Director*
MURRAY ALTMANN, *Asst. to the Board*
PETER M. KEIR, *Asst. to the Board*
STANLEY J. SIGEL, *Asst. to the Board*
NORMAND R. V. BERNARD, *Special Asst. to the Board*

OFFICE OF STAFF DIRECTOR FOR MANAGEMENT

JOHN M. DENKLER, *Staff Director*
EDWARD T. MULRENIN, *Asst. Staff Director*
JOSEPH W. DANIELS, SR., *Director of Equal Employment Opportunity*

OFFICE OF STAFF DIRECTOR FOR FEDERAL RESERVE BANK ACTIVITIES

WILLIAM H. WALLACE, *Staff Director*
HARRY A. GUINTER, *Asst. Director for Contingency Planning*

OFFICE OF THE SECRETARY

THEODORE E. ALLISON, *Secretary*
GRIFFITH L. GARWOOD, *Deputy Secretary*
WILLIAM N. MCDONOUGH, *Asst. Secretary* [2]
RICHARD H. PUCKETT, *Manager, Regulatory Improvement Project*

LEGAL DIVISION

NEAL L. PETERSEN, *General Counsel*
ROBERT E. MANNION, *Deputy General Counsel*
CHARLES R. MCNEILL, *Asst. to the General Counsel*
J. VIRGIL MATTINGLY, *Asst. General Counsel*
GILBERT T. SCHWARTZ, *Asst. General Counsel*

DIVISION OF RESEARCH AND STATISTICS

JAMES L. KICHLINE, *Director*
JOSEPH S. ZEISEL, *Deputy Director*
JOHN H. KALCHBRENNER, *Assoc. Director*

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[1] The designations as Chairman and Vice Chairman expire on Aug. 6, 1983, and July 27, 1983, respectively, unless the services of these members of the Board shall have terminated sooner.

[2] On loan from the Federal Reserve Bank of Boston.

DIVISION OF RESEARCH AND STATISTICS—Continued

Michael J. Prell, *Assoc. Director*
Robert A. Eisenbeis, *Sr. Deputy Assoc. Director*
John J. Mingo, *Sr. Deputy Assoc. Director*
Eleanor J. Stockwell, *Sr. Deputy Assoc. Director*
James M. Brundy, *Deputy Assoc. Director*
Jared J. Enzler, *Deputy Assoc. Director*
J. Cortland G. Peret, *Deputy Assoc. Director*
Helmut F. Wendel, *Deputy Assoc. Director*
Robert M. Fisher, *Asst. Director*
Frederick M. Struble, *Asst. Director*
Stephen P. Taylor, *Asst. Director*
Levon H. Garabedian, *Asst. Director (Administration)*

DIVISION OF INTERNATIONAL FINANCE

Edwin M. Truman, *Director*
Robert F. Gemmill, *Assoc. Director*
George B. Henry, *Assoc. Director*
Charles J. Siegman, *Assoc. Director*
Samuel Pizer, *Staff Adviser*
Jeffrey R. Shafer, *Deputy Assoc. Director*
Dale W. Henderson, *Asst. Director*
Larry J. Promisel, *Asst. Director*
Ralph W. Smith, Jr., *Asst. Director*

DIVISION OF FEDERAL RESERVE BANK OPERATIONS

James R. Kudlinski, *Director*
Clyde H. Farnsworth, Jr., *Deputy Director*
Walter Althausen, *Asst. Director*
Charles W. Bennett, *Asst. Director*
Lorin S. Meeder, *Asst. Director*
P. D. Ring, *Asst. Director*
Raymond L. Teed, *Asst. Director*

DIVISION OF BANKING SUPERVISION AND REGULATION

John E. Ryan, *Director*
Frederick R. Dahl, *Assoc. Director*
William Taylor, *Assoc. Director*
William W. Wiles, *Assoc. Director*
Jack M. Egertson, *Asst. Director*
Robert A. Jacobsen, *Asst. Director*
Don E. Kline, *Asst. Director*
Robert S. Plotkin, *Asst. Director*
Thomas A. Sidman, *Asst. Director*
Samuel H. Talley, *Asst. Director*

DIVISION OF CONSUMER AND COMMUNITY AFFAIRS

Janet O. Hart, *Director*
Nathaniel E. Butler, *Assoc. Director*
Jerauld E. Kluckman, *Assoc. Director*

DIVISION OF PERSONNEL

David L. Shannon, *Director*
John R. Weis, *Asst. Director*
Charles W. Wood, *Asst. Director*

DIVISION OF SUPPORT SERVICES

Donald E. Anderson, *Director*
John L. Grizzard, *Assoc. Director*
Walter W. Kreimann, *Assoc. Director*

OFFICE OF THE CONTROLLER

John Kakalec, *Controller*
George E. Livingston, *Asst. Controller*

DIVISION OF DATA PROCESSING

Charles L. Hampton, *Director*
Bruce M. Beardsley, *Assoc. Director*
Uyless D. Black, *Asst. Director*
Glenn L. Cummins, *Asst. Director*
Robert J. Zemel, *Asst. Director*

Federal Open Market Committee

December 31, 1979

MEMBERS

PAUL A. VOLCKER, *Chairman* (Board of Governors)

Vacant, *Vice Chairman* (elected by Federal Reserve Bank of New York)

JOHN BALLES (elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)

ROBERT BLACK (elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)

PHILIP E. COLDWELL (Board of Governors)

MONROE KIMBREL (elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)

ROBERT MAYO (elected by Federal Reserve Banks of Cleveland and Chicago)

J. CHARLES PARTEE (Board of Governors)

EMMETT J. RICE (Board of Governors)

FREDERICK H. SCHULTZ (Board of Governors)

NANCY H. TEETERS (Board of Governors)

HENRY C. WALLICH (Board of Governors)

OFFICERS

MURRAY ALTMANN, *Secretary*

NORMAND R. V. BERNARD, *Assistant Secretary*

NEAL L. PETERSEN, *General Counsel*

JAMES H. OLTMAN, *Deputy General Counsel*

ROBERT E. MANNION, *Assistant General Counsel*

STEPHEN H. AXILROD, *Economist*

ALAN R. HOLMES, *Adviser for Market Operations*

HARRY BRANDT, *Associate Economist*

RICHARD G. DAVIS, *Associate Economist*

EDWARD C. ETTIN, *Associate Economist*

GEORGE B. HENRY, *Associate Economist*

PETER M. KEIR, *Associate Economist*

MICHAEL KERAN, *Associate Economist*

JAMES L. KICHLINE, *Associate Economist*

JAMES PARTHEMOS, *Associate Economist*

KARL SCHELD *Associate Economist*

EDWIN M. TRUMAN, *Associate Economist*

JOSEPH S. ZEISEL, *Associate Economist*

PETER D. STERNLIGHT, *Manager for Domestic Operations, System Open Market Account*

SCOTT E. PARDEE, *Manager for Foreign Operations, System Open Market Account*

During 1979, meetings of the Federal Open Market Committee were generally held at monthly intervals. (See "Record of Policy Actions of the Federal Open Market Committee" in this REPORT.)

Federal Advisory Council

December 31, 1979

MEMBERS

District No. 1—HENRY S. WOODBRIDGE, JR., *President and Chief Executive Officer*, Rhode Island Hospital Trust National Bank, Providence, R.I.

District No. 2—WALTER B. WRISTON, *Chairman of the Board*, Citibank, N.A., New York, N.Y.

District No. 3—WILLIAM B. EAGLESON, JR., *Chairman of the Board and President*, Girard Bank, Bala Cynwyd, Pa.

District No. 4—MERLE E. GILLIAND, *Chairman of the Board*, Pittsburgh National Bank, Pittsburgh, Pa.

District No. 5—J. OWEN COLE, *Chairman of the Board*, First National Bank of Maryland, Baltimore, Md.

District No. 6—FRANK A. PLUMMER, *Chairman of the Board and Chief Executive Officer*, First Alabama Bancshares, Inc., Birmingham, Ala.

District No. 7—ROGER E. ANDERSON, *Chairman of the Board*, Continental Illinois National Bank and Trust Company, Chicago, Ill.

District No. 8—CLARENCE C. BARKSDALE, *Chairman of the Board and Chief Executive Officer*, First National Bank in St. Louis, St. Louis, Mo.

District No. 9—CLARENCE G. FRAME, *President and Chief Executive Officer*, First National Bank of St. Paul, St. Paul, Minn.

District No. 10—J. W. MCLEAN, *Chairman*, The Liberty National Bank and Trust Company of Oklahoma City, Oklahoma City, Okla.

District No. 11—JAMES D. BERRY, *Chairman of the Board and Chief Executive Officer*, Republic of Texas Corporation, Dallas, Tex.

District No. 12—CHAUNCEY E. SCHMIDT, *Chairman of the Board, President, and Chief Executive Officer*, The Bank of California, N.A., San Francisco, Cal.

J. W. MCLEAN, *President* Vacant, *Vice President*

HERBERT V. PROCHNOW, *Secretary*
WILLIAM J. KORSVIK, *Associate Secretary*

FRANK A. PLUMMER CLARENCE C. BARKSDALE
WALTER B. WRISTON

Meetings of the Federal Advisory Council were held on February 1–2, May 3–4, September 6–7, and November 1–2, 1979. The Board of Governors met with the council on February 2, May 4, September 7, and November 2, 1979. The council, which is composed of 12 representatives of the banking industry, one from each Federal Reserve District, is required by law to meet in Washington at least four times each year, and is authorized by the Federal Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

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December 31, 1979

WILLIAM D. WARREN, Los Angeles, California, *Chairman*
MARCIA A. HAKALA, Omaha, Nebraska, *Vice Chairman*

ROLAND E. BRANDEL,
San Francisco, California
JAMES L. BROWN,
Milwaukee, Wisconsin
MARK E. BUDNITZ,
Atlanta, Georgia
JOHN G. BULL,
Fort Lauderdale, Florida
ROBERT V. BULLOCK,
Frankfort, Kentucky
CARL FELSENFELD,
New York, New York
JEAN A. FOX,
Pittsburgh, Pennsylvania
RICHARD H. HOLTON,
Berkeley, California
EDNA DECOURSEY JOHNSON,
Baltimore, Maryland
RICHARD F. KERR,
Cincinnati, Ohio
ROBERT J. KLEIN,
New York, New York
HARVEY M. KUHNLEY,
Minneapolis, Minnesota
PERCY W. LOY,
Portland, Oregon

R. C. MORGAN,
El Paso, Texas
FLORENCE M. RICE,
New York, New York
RALPH J. ROHNER,
Washington, D.C.
RAYMOND J. SAULNIER,
New York, New York
HENRY B. SCHECHTER,
Washington, D.C.
E. G. SCHUHART II,
Amarillo, Texas
BLAIR C. SHICK,
Cambridge, Massachusetts
THOMAS R. SWAN,
Portland, Maine
ANNE GARY TAYLOR,
Alexandria, Virginia
RICHARD A. VAN WINKLE,
Salt Lake City, Utah
RICHARD D. WAGNER,
Simsbury, Connecticut
MARY W. WALKER,
Monroe, Georgia
LEONOR K. SULLIVAN,
Chairman Emeritus,
St. Louis, Missouri

Meetings between the Consumer Advisory Council and members of the Board of Governors were held on February 21–22, June 6–7, and October 22–23, 1979. The council, which is composed of creditors, consumers, and others, was established pursuant to the Equal Credit Opportunity Act to advise the Board on consumer-related matters.

Federal Reserve Banks and Branches

December 31, 1979

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank	Chairman and Federal Reserve Agent	Deputy Chairman
Boston	Robert M. Solow	Robert P. Henderson
New York	Robert H. Knight	Boris Yavitz
Philadelphia	John W. Eckman	Werner C. Brown
Cleveland	Robert E. Kirby	Arnold R. Weber
Richmond	Maceo A. Sloan	Steven Muller
Atlanta	Vacant	William A. Fickling, Jr.
Chicago	Robert H. Strotz	John Sagan
St. Louis	Armand C. Stalnaker	William B. Walton
Minneapolis	Stephen F. Keating	William G. Phillips
Kansas City	Harold W. Andersen	Joseph H. Williams
Dallas	Irving A. Mathews	Gerald D. Hines
San Francisco	Joseph F. Alibrandi	Cornell C. Maier

CONFERENCE OF CHAIRMEN

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets to consider matters of common interest and to consult with and advise the Board of Governors. Such meetings, attended also by the Deputy Chairmen, were held in Washington on May 31–June 1 and November 29–30, 1979.

The Executive Committee of the Conference of Chairmen during 1979 comprised Joseph F. Alibrandi, Chairman, Harold W. Andersen, Vice Chairman, and John W. Eckman, member.

On November 30, 1979, Mr. Eckman was elected chairman of the conference and of its Executive Committee to serve for the succeeding year; Stephen F. Keating was elected Vice Chairman of the conference and a member of the Executive Committee; and Robert K. Kirby and Irving A. Mathews were elected as the other members of the Executive Committee.

DIRECTORS

Class A and Class B directors are elected by the member banks of a Federal Reserve District. Class C directors are appointed by the Board of Governors of the Federal Reserve System. One term in each class of directors expires each year. Directors are chosen without discrimination as to race, creed, color, sex, or national origin.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. Class B and Class C directors represent the public and are selected with due, but not exclusive, consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. Class B and Class C directors may not be officers, directors, or employees of any bank, nor may Class C directors be stockholders of any bank. Annually, the Board of Governors designates one Class C director of each Reserve Bank to serve as Chairman of the Bank and one to serve as Deputy Chairman.

Branches of Federal Reserve Banks have either five or seven directors, of whom a majority are appointed by the board of directors of the parent Federal Reserve Bank. The others are appointed by the Board of Governors of the Federal Reserve System. The Chairmen of branch boards are selected from among directors appointed by the Board of Governors.

District 1—BOSTON

		Term expires Dec. 31
Class A		
John Hunter, Jr.	President, Vermont National Bank, Brattleboro, Vt.	1979
Richard D. Hill	Chairman of the Board, First National Boston Corporation, Boston, Mass.	1980
Fred A. White	President, Dartmouth National Bank of Hanover, Hanover, N.H.	1981
Class B		
Carol R. Goldberg	Senior Vice President, The Stop & Shop Companies, Inc., Boston, Mass.	1979
Weston P. Figgins	Chairman of the Board, Wm. Filene's Sons Company, Boston, Mass.	1980
Robert D. Kilpatrick	President & Chief Executive Officer, Connecticut General Life Insurance Co., Hartford, Conn.	1981
Class C		
Kenneth I. Guscott	President, Ken Guscott Associates, Boston, Mass.	1979
Robert M. Solow	Institute Professor, Massachusetts Institute of Technology, Cambridge, Mass.	1980
Robert P. Henderson	President and Chief Executive Officer, Itek Corp., Lexington, Mass.	1981

District 2—NEW YORK

		Term expires Dec. 31
Class A		
Ellmore C. Patterson	Former Chairman of the Board, Morgan Guaranty Trust Company of N.Y., New York, N.Y.	1979
Raymond W. Bauer	Chairman and President, United Counties Trust Company, Elizabeth, N.J.	1980
James Whelden	President, Ballston Spa National Bank, Ballston Spa, N.Y.	1981
Class B		
Maurice F. Granville	Chairman of the Board, Texaco Inc., White Plains, N.Y.	1979
William S. Sneath	Chairman of the Board, Union Carbide Corporation, New York, N.Y.	1980
Vacant		1981
Class C		
Boris Yavitz	Dean, Graduate School of Business, Columbia University, New York, N.Y.	1979
Robert H. Knight	Partner, Shearman and Sterling, Attorneys, New York, N.Y.	1980
Gertrude G. Michelson	Senior Vice President, Macy's New York, New York, N.Y.	1981

BUFFALO BRANCH

		Term expires Dec. 31
Appointed by Federal Reserve Bank		
M. Jane Dickman	Partner, Touche Ross & Co., Buffalo, N.Y.	1979
William B. Webber	Vice Chairman of the Board, Lincoln First Bank, N.A., Rochester, N.Y.	1979
William S. Gavitt	President, The Lyons National Bank, Lyons, N.Y.	1980
Robert J. Donough	President, Liberty National Bank and Trust Co., Buffalo, N.Y.	1981
Appointed by Board of Governors		
Frederick D. Berkeley III	Chairman of the Board and President, Graham Manufacturing Company, Inc., Batavia, N.Y.	1979
John R. Burwell	President, Rollins Container Corporation, Rochester, N.Y.	1980
George L. Wessel	President, Buffalo AFL-CIO Council, Buffalo, N.Y.	1981

District 3—PHILADELPHIA

		Term expires Dec. 31
Class A		
Donald J. Seebold	President, The First National Bank of Danville, Danville, Pa.	1979
John R. Biechler	President and Chief Executive Officer, The Commonwealth National Bank, Harrisburg, Pa.	1980
Robert H. Deacon	President, The Bank of Mid-Jersey, Bordentown, N.J.	1981
Class B		
William S. Masland	President and Chief Executive Officer, C. H. Masland & Sons, Carlisle, Pa.	1979
Vacant		1980
Richard P. Hauser	Chairman and Chief Executive Officer, John Wanamaker, Philadelphia, Pa.	1981
Class C		
Jean A. Crockett	Chairman, Dept. of Finance, Wharton School, University of Pennsylvania, Philadelphia, Pa.	1979
Werner C. Brown	Chairman, Hercules Incorporated, Wilmington, Del.	1980
John W. Eckman	Chairman and President, Rorer Group, Inc., Fort Washington, Pa.	1981

District 4—CLEVELAND

Class A		
John W. Alford	Chairman of the Board and Chief Executive Officer, The Park National Bank, Newark, Ohio	1979
John A. Gelbach	Chairman of the Board, Central National Bank, Cleveland, Ohio	1980
Everett L. Maffett	President and Chief Executive Officer, Eaton National Bank & Trust Co., Eaton, Ohio	1981
Class B		
Charles Y. Lazarus	Chairman, The F. & R. Lazarus Co., Columbus, Ohio	1979
Hays T. Watkins	Chairman and President, Chessie System, Cleveland, Ohio	1980
Walter J. Robb	Chairman and Senior Partner, Proctor, Robb & Company, Granville, Ohio	1981

Class C

		Term expires Dec. 31
Robert E. Kirby	Chairman and Chief Executive Officer, Westinghouse Electric Corporation, Pittsburgh, Pa.	1979
Arnold R. Weber	Provost, Office of Provost, Carnegie-Mellon University, Pittsburgh, Pa.	1980
J. L. Jackson	President, Falcon Coal Company Inc., Lexington, Ky.	1981

CINCINNATI BRANCH

Appointed by Federal Reserve Bank

William N. Liggett	Chairman of the Board and Chief Executive Officer, The First National Bank of Cincinnati, Cincinnati, Ohio	1979
Walter W. Hillenmeyer, Jr.	Chairman and Chief Executive Officer, First Security National Bank and Trust Company, Lexington, Ky.	1980
Lawrence C. Hawkins	Senior Vice President, University of Cincinnati, Cincinnati, Ohio.	1981
Elden Houts	President, The Citizens Commercial Bank and Trust Company, Celina, Ohio	1981

Appointed by Board of Governors

Sister Michael Leo Mullaney	President, St. Joseph Hospital, Lexington, Ky.	1979
Lawrence H. Rogers II	President and Chief Executive Officer, Omega Communications, Inc., Cincinnati, Ohio	1980
Martin B. Friedman	President, Formica Corporation, Cincinnati, Ohio	1981

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank

Peter Mortensen	President, F.N.B. Corporation, Sharon, Pa.	1979
William E. Bierer	President, Equibank N.A., Pittsburgh, Pa.	1980
Robert W. Fiscus	President and Chief Executive Officer, The Savings & Trust Company of Pennsylvania, Indiana, Pa.	1981
R. Burt Gookin	Director, H. J. Heinz Co., Pittsburgh, Pa.	1981

		Term expires Dec. 31
Appointed by Board of Governors		
G. J. Tankersley	Chairman and Chief Executive Officer, Consolidated Natural Gas Company, Pittsburgh, Pa.	1979
Lloyd M. McBride	President, United Steelworkers of America, Pittsburgh, Pa.	1980
William H. Knoell	President, Cyclops Corporation, Pittsburgh, Pa.	1981

District 5—RICHMOND

Class A		
Frank B. Robards, Jr.	President, Rock Hill National Bank, Rock Hill, S.C.	1979
Frederic H. Phillips	Senior Vice President, Virginia National Bank, Roanoke, Va.	1980
Vincent C. Burke, Jr.	Chairman of the Board and Chief Executive Officer, The Riggs National Bank of Washington, D.C., Washington, D.C.	1981
Class B		
Andrew L. Clark	President, Andy Clark Ford, Inc., Princeton, W. Va.	1979
Thomas A. Jordan	Secretary–Treasurer, Stuart Furniture Industries, Inc., Asheboro, N.C.	1980
Paul G. Miller	Chairman of the Board, President and Chief Executive Officer, Commercial Credit Company, Baltimore, Md.	1981
Class C		
Paul E. Reichardt	Chairman of the Board, President and Chief Executive Officer, Washington Gas Light Company, Washington, D.C.	1979
Steven Muller	President, The Johns Hopkins University, Baltimore, Md.	1980
Maceo A. Sloan	Executive Vice President and Chief Operating Officer, North Carolina Mutual Life Ins. Co., Durham, N.C.	1981

BALTIMORE BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Lacy I. Rice, Jr.	President, The Old National Bank of Martinsburg, Martinsburg, W. Va.	1979
A. R. Reppert	President, The Union National Bank of Clarksburg, Clarksburg, W. Va.	1979
Joseph M. Gough, Jr.	President, The First National Bank of St. Mary's, Leonardtown, Md.	1980
Pearl C. Brackett	Assistant/Deputy Manager, Baltimore Regional Chapter of American Red Cross, Baltimore, Md.	1981

Appointed by Board of Governors

I. E. Killian	President, Killian Enterprises, Inc., Gibson Island, Md.	1979
Catherine Byrne Doehler	Baltimore, Md.	1980
Joseph H. McLain	President, Washington College, Chestertown, Md.	1981

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank

Thomas L. Benson	President, The Conway National Bank, Conway, S.C.	1979
W. B. Apple, Jr.	President, First National Bank of Reidsville, Reidsville, N.C.	1979
John T. Fielder	President, J. B. Ivey and Company, Charlotte, N.C.	1980
Hugh M. Chapman	Chairman of the Board, The Citizens & Southern National Bank of South Carolina, Columbia, S.C.	1981

Appointed by Board of Governors

Naomi G. Albanese	Dean, School of Home Economics, University of North Carolina at Greensboro, Greensboro, N.C.	1979
Robert E. Elberson	President, Chief Executive Officer and Director, Hanes Corporation, Winston-Salem, N.C.	1980
Henry Ponder	Office of the President, Benedict College, Columbia, S.C.	1981

District 6—ATLANTA

		Term expires Dec. 31
Class A		
John T. Oliver, Jr.	President, First National Bank of Jasper, Jasper, Ala.	1979
Hugh M. Willson	President, Citizens National Bank, Athens, Tenn.	1980
Guy W. Botts	Chairman of the Board, Barnett Banks of Florida, Inc., Jacksonville, Fla.	1981
Class B		
Jean McArthur Davis	President, McArthur Dairy, Inc., Miami, Fla.	1979
Ulysses V. Goodwyn	Executive Vice President, Southern Natural Resources, Inc., Birmingham, Ala.	1980
Floyd W. Lewis	Chairman of the Board and Chief Executive Officer, Middle South Utilities, Inc., New Orleans, La.	1981
Class C		
Vacant		1979
William A. Fickling, Jr.	President and Chairman, Charter Medical Corporation, Macon, Ga.	1980
Fred Adams, Jr.	President, Cal-Maine Foods, Inc., Jackson, Miss.	1981

BIRMINGHAM BRANCH

Appointed by Federal Reserve Bank		
Drury Flowers	Chairman, First Alabama Bank of Dothan, Dothan, Ala.	1979
Martha H. Simms	Huntsville, Ala.	1979
George S. Shirley	President, The First National Bank of Tuscaloosa, Tuscaloosa, Ala.	1980
Guy H. Caffey, Jr.	Chairman and Chief Executive Officer, Southern Bancorporation of Alabama and Birmingham Trust National Bank, Birmingham, Ala.	1981
Appointed by Board of Governors		
William H. Martin III	President and Chief Executive Officer, Martin Industries, Inc., Florence, Ala.	1979
Harold B. Blach, Jr.	President, Blach's, Inc., Birmingham, Ala.	1980
Louis J. Willie	Executive Vice President, Booker T. Washington Insurance Co., Birmingham, Ala.	1981

JACKSONVILLE BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Richard E. Ehlis	President, Florida National Bank at Lakeland, Lakeland, Fla.	1979
William E. Arnold, Jr.	President, William E. Arnold Company, Jacksonville, Fla.	1979
DuBose Ausley	President and Chief Executive Officer, Capital City First National Bank, Tallahassee, Fla.	1980
Robert E. Warfield, Jr.	Chairman and President, The First National Bank and Trust Co., Eustis, Fla.	1981

Appointed by Board of Governors

Copeland D. Newbern	Chairman of the Board, Newbern Groves, Inc., Tampa, Fla.	1979
Joan W. Stein	Partner, Regency Square Shopping Center, Jacksonville, Fla.	1980
Jerome P. Keuper	President, Florida Institute of Technology, Melbourne, Fla.	1981

MIAMI BRANCH

Appointed by Federal Reserve Bank

Aristides R. Sastre	President, Republic National Bank, Miami, Fla.	1979
Tully F. Dunlap	Chairman, Florida National Bank, Miami, Fla.	1980
Jane C. Cousins	President, Cousins Associates, Inc., Miami, Fla.	1981
Alfred W. Roepstorff	President, National Bank of Collier County, Marco Island, Fla.	1981

Appointed by Board of Governors

Castle W. Jordan	President, Aegis Corporation, Coral Gables, Fla.	1979
David G. Robinson	President, Edison Community College, Fort Myers, Fla.	1980
Roy W. Vandegrift, Jr.	President, Vandegrift–Williams Farms, Inc., Pahokee, Fla.	1981

NASHVILLE BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Virgil H. Moore, Jr.	President, First Farmers and Merchants National Bank, Columbia, Tenn.	1979
Vacant		1979
James R. Austin	Chairman and Chief Executive Officer, Peoples National Bank, Shelbyville, Tenn.	1980
Ruth W. Ellis	President, Mountain Empire Bank, Johnson City, Tenn.	1981

Appointed by Board of Governors

Cecelia Adkins	Executive Director, Sunday School Publishing Board, Nashville, Tenn.	1979
Robert C. H. Mathews, Jr.	President, R. C. Mathews, Contractor, Inc., Nashville, Tenn.	1980
John C. Bolinger	Management Consultant, Hamilton House #130, Knoxville, Tenn.	1981

NEW ORLEANS BRANCH

Appointed by Federal Reserve Bank

Martin C. Miler	Chairman of the Board and President, The Hibernia National Bank, New Orleans, La.	1979
George P. Hopkins, Jr.	President, George P. Hopkins, Inc., Gulfport, Miss.	1979
William E. Howard, Jr.	Chairman of the Board, Commercial National Bank and Trust Company of Laurel, Laurel, Miss.	1980
Robert H. Bolton	President, Rapides Bank and Trust Company in Alexandria, Alexandria, La.	1981

Appointed by Board of Governors

Levere C. Montgomery	President, Time Saver Stores, Inc., New Orleans, La.	1979
George C. Cortright, Jr.	Partner, George C. Cortright Company, Rolling Fork, Miss.	1980
Horatio C. Thompson	President, Horatio Thompson Investment, Inc., Baton Rouge, La.	1981

District 7—CHICAGO

		Term expires Dec. 31
Class A		
Jay J. DeLay	President, Huron Valley National Bank, Ann Arbor, Mich.	1979
John F. Spies	President, Iowa Trust and Savings Bank, Emmetsburg, Iowa	1980
A. Robert Abboud	Chairman of the Board, The First National Bank of Chicago, Chicago, Ill.	1981
Class B		
Mary Garst	Manager of Cattle Division, Garst Company, Coon Rapids, Iowa	1979
Arthur J. Decio	Chairman of the Board and Chief Executive Officer, Skyline Corporation, Elkhart, Ind.	1980
Dennis W. Hunt	President, Hunt Truck Lines, Inc., Rockwell City, Iowa	1981
Class C		
Robert H. Strotz	President, Northwestern University, Evanston, Ill.	1979
John Sagan	Vice President–Treasurer, Ford Motor Company, Dearborn, Mich.	1980
Edward F. Brabec	Business Manager, Chicago Journeymen Plumbers, Chicago, Ill.	1981

DETROIT BRANCH

Appointed by Federal Reserve Bank		
Rodkey Craighead	Chairman and Chief Executive Officer, Detroitbank Corporation, Detroit, Mich.	1979
Lawrence A. Johns	President, Isabella Bank and Trust, Mount Pleasant, Mich.	1980
Charles R. Montgomery	President, Michigan Consolidated Gas Company, Detroit, Mich.	1981
James H. Duncan	Chairman, First American Bank Corporation, Kalamazoo, Mich.	1981
Appointed by Board of Governors		
Jordan B. Tatter	President and Chief Executive Officer, Southern Michigan Cold Storage Co., Benton Harbor, Mich.	1979
Howard F. Sims	President, Sims-Varner Associates, Inc., Detroit, Mich.	1980
Herbert H. Dow	Director and Secretary, The Dow Chemical Company, Midland, Mich.	1981

District 8— ST. LOUIS

		Term expires Dec. 31
Class A		
Raymond C. Burroughs	President and Chief Executive Officer, The City National Bank of Murphysboro, Murphysboro, Ill.	1979
Donald N. Brandin	Chairman of the Board and Chief Executive Officer, The Boatmen's National Bank of St. Louis, St. Louis, Mo.	1980
George M. Ryrie	President, First National Bank & Trust Company, Alton, Ill.	1981
Class B		
Virginia M. Bailey	Owner, Eldo Properties, Little Rock, Ark.	1979
Ralph C. Bain	Vice President, Wabash Plastics, Inc., Evansville, Ind.	1980
Tom K. Smith, Jr.	St. Louis, Mo.	1981
Class C		
Armand C. Stalnaker	Chairman of the Board, General American Life Insurance Co., St. Louis, Mo.	1979
William H. Stroube	Associate Dean of Faculty Programs, Western Kentucky University, Bowling Green, Ky.	1980
William B. Walton	Vice Chairman of the Board, Holiday Inns, Inc., Memphis, Tenn.	1981

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank		
B. Finley Vinson	Vice Chairman of the Board, The First National Bank in Little Rock, Little Rock, Ark.	1979
Thomas E. Hays, Jr.	President and Chief Executive Officer, The First National Bank of Hope, Hope, Ark.	1980
Gordon E. Parker	President and Chief Executive Officer, The First National Bank of El Dorado, El Dorado, Ark.	1981
Shirley J. Pine	Speech Communication, University of Arkansas at Little Rock, Little Rock, Ark.	1981

Appointed by Board of Governors

		Term expires Dec. 31
E. Ray Kemp, Jr.	Vice Chairman of the Board and Chief Administrative Officer, Dillard Department Stores, Inc., Little Rock, Ark.	1979
Ronald W. Bailey	Executive Vice President and General Manager, Producers Rice Mill, Inc., Stuttgart, Ark.	1980
G. Larry Kelley	President, Pickens–Bond Construction Co., Little Rock, Ark.	1981

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank

Howard Brenner	Vice Chairman of the Board, Tell City National Bank, Tell City, Ind.	1979
J. David Grissom	Chairman and Chief Executive Officer, Citizens Fidelity Bank and Trust Co., Louisville, Ky.	1980
Fred B. Oney	President, The First National Bank of Carrollton, Carrollton, Ky.	1981
Sister Eileen M. Egan	President, Spalding College, Louisville, Ky	1981

Appointed by Board of Governors

James F. Thompson	Professor of Economics, Murray State University, Murray, Ky.	1979
Richard O. Donegan	Senior Vice President and Group Executive, General Electric Company, Louisville, Ky.	1980
Wendell G. Rayburn	Dean of University College, University of Louisville, Louisville, Ky.	1981

MEMPHIS BRANCH

Appointed by Federal Reserve Bank

Earl L. McCarroll	President, The Farmers Bank & Trust Co., Blytheville, Ark.	1979
Charles S. Youngblood	President and Chief Executive Officer, First Columbus National Bank, Columbus, Miss.	1980
Stallings Lipford	President, First-Citizens National Bank of Dyersburg, Dyersburg, Tenn.	1981
Bruce E. Campbell, Jr.	Chairman and President, National Bank of Commerce, Memphis, Tenn.	1981

Appointed by Board of Governors		*Term expires Dec. 31*
Walter L. Walker	President, LeMoyne-Owen College, Memphis, Tenn.	1979
Frank A. Jones, Jr.	President, Dietz Forge Company, Memphis, Tenn.	1980
Benjamin P. Pierce	President, Tyrone Hydraulics, Inc., Corinth, Miss.	1981

District 9—MINNEAPOLIS

Class A		
Nels E. Turnquist	President, National Bank of South Dakota, Sioux Falls, S. Dak.	1979
James H. Smaby	President, Commercial National Bank & Trust Co., Iron Mountain, Mich.	1980
Vacant		1981
Class B		
Warren B. Jones	Secretary-Treasurer, Two Dot Land & Livestock Co., Harlowton, Mont.	1979
Donald P. Helgeson	Secretary and Vice President, Jack Frost, Inc., St. Cloud, Minn.	1980
Russell G. Cleary	Chairman and President, G. Heileman Brewing Company, LaCrosse, Wis.	1981
Class C		
Sister Generose Gervais	Administrator, St. Mary's Hospital, Rochester, Minn.	1979
Stephen F. Keating	Vice Chairman of the Board, Honeywell, Inc., Minneapolis, Minn.	1980
William G. Phillips	Chairman and Chief Executive Officer, International Multifoods, Minneapolis, Minn.	1981

HELENA BRANCH

Appointed by Federal Reserve Bank		
Lynn D. Grobel	President, First National Bank of Glasgow, Glasgow, Mont.	1979
William B. Andrews	Chairman, Northwestern Bank of Helena, Helena, Mont.	1980
Jase O. Norsworthy	President, The N.R.G. Company, Billings, Mont.	1980
Appointed by Board of Governors		
Norris E. Hanford	Fort Benton, Mont.	1979
Patricia P. Douglas	Vice President-Fiscal Affairs, University of Montana, Missoula, Mont.	1980

District 10—KANSAS CITY

		Term expires Dec. 31
Class A		
Howard K. Loomis	President, The Peoples Bank, Pratt, Kans.	1979
Wayne D. Angell	President, Council Grove National Bank, Council Grove, Kans.	1980
John D. Woods	Chairman & Chief Exec. Officer, The Omaha National Bank, Omaha, Nebr.	1981
Class B		
John A. McKinney	President and Chief Executive Officer, Johns-Manville Corporation, Denver, Colo.	1979
James G. Harlow, Jr.	President, Oklahoma Gas and Electric Co., Oklahoma City, Okla.	1980
Alan R. Sleeper	Alden, Kans.	1981
Class C		
Paul H. Henson	Chairman, United Telecommunications, Inc., Westwood, Kans.	1979
Joseph H. Williams	Chairman and Chief Executive Officer, The Williams Companies, Tulsa, Okla.	1980
Harold W. Andersen	President, Omaha World-Herald Company, Omaha, Nebr.	1981

DENVER BRANCH

Appointed by Federal Reserve Bank		
Felix Buchenroth, Jr.	President, The Jackson State Bank, Jackson, Wyo.	1979
William H. Vernon	Director, and Former Chairman and Chief Executive Officer, Santa Fe National Bank, Santa Fe, N. Mex.	1980
Delano E. Scott	President and Chairman, The Routt County National Bank of Steamboat Springs, Steamboat Springs, Colo.	1980
Appointed by Board of Governors		
A. L. Feldman	President and Chief Executive Officer, Frontier Airlines, Denver, Colo.	1979
Doris M. Drury	Professor and Chairman, Department of Economics, University of Denver, Denver, Colo.	1980

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
J. A. Maurer	Chairman, Security National Bank & Trust Co., Duncan, Okla.	1979
W. L. Stephenson, Jr.	Chairman and Chief Executive Officer, Central National Bank & Trust Co. of Enid, Enid, Okla.	1980
V. M. Thompson, Jr.	Chairman and Chief Executive Officer, Utica National Bank and Trust Co., Tulsa, Okla.	1980

Appointed by Board of Governors

Christine H. Anthony	Oklahoma City, Okla.	1979
Samuel R. Noble	Chairman of the Board, Noble Affiliates, Inc., Ardmore, Okla.	1980

OMAHA BRANCH

Appointed by Federal Reserve Bank

Roy G. Dinsdale	Chairman of the Board, Farmers National Bank of Central City, Central City, Nebr.	1979
Joe J. Huckfeldt	President, Gering National Bank & Trust Co., Gering, Nebr.	1979
F. Phillips Giltner	President, First National Bank of Omaha, Omaha, Nebr.	1980

Appointed by Board of Governors

Durward B. Varner	Chairman and Chief Executive Officer, University of Nebraska Foundation, Lincoln, Nebr.	1979
Robert G. Lueder	President, Lueder Construction Company, Omaha, Nebr.	1980

District 11—DALLAS

Class A

Gene D. Adams	President, The First National Bank of Seymour, Seymour, Tex.	1979
Frank Junell	Chairman of the Board, The Central National Bank of San Angelo, San Angelo, Tex.	1980
Lewis H. Bond	Chairman and Chief Executive Officer, Texas American Bancshares, Inc., Ft. Worth, Tex.	1981

		Term expires Dec. 31
Class B		
Stewart Orton	Chairman of the Board and Chief Executive Officer, Foley's, Division of Federated Department Stores, Inc., Houston, Tex.	1979
L. Kent Gilbreath	Associate Professor of Economics, Baylor University, Waco, Tex.	1980
J. Wayland Bennett	Associate Dean for Industry Relations and Professor of Agricultural Economics, College of Agricultural Sciences, Texas Tech University, Lubbock, Tex.	1981
Class C		
Margaret S. Wilson	Chairman of the Board and Chief Executive Officer, Scarbroughs Stores, Austin, Tex.	1979
Irving A. Mathews	Chairman of the Board and Chief Executive Officer, Frost Bros., Inc., San Antonio, Tex.	1980
Gerald D. Hines	Owner, Gerald D. Hines Interests, Houston, Tex.	1981

EL PASO BRANCH

Appointed by Federal Reserve Bank		
Arthur L. Gonzales	President, First City National Bank of El Paso, El Paso, Tex.	1979
Claude E. Leyendecker	President, Mimbres Valley Bank, Deming, N. Mex.	1980
Arnold B. Peinado, Jr.	Partner, AVC Development, El Paso, Tex.	1981
Charles A. Joplin	President, Security National Bank of Roswell, Roswell, N. Mex.	1981
Appointed by Board of Governors		
A. J. Losee	Shareholder, Losee, Carson, & Dickerson, P.A., Artesia, N. Mex.	1979
Chester J. Kesey	C. J. Kesey Enterprises, Pecos, Tex.	1980
Josefina A. Salas-Porras	Executive Director, BI Language Services, El Paso, Tex.	1981

HOUSTON BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Page K. Stubblefield	Chairman of the Board, Victoria Bank & Trust Company, Victoria, Tex.	1979
Raymond L. Britton	Labor Arbitrator & Professor of Law, University of Houston, Bates College of Law, Houston, Tex.	1980
John T. Cater	President, Bank of the Southwest National Association, Houston, Tex.	1981
Ralph E. David	President, First Freeport National Bank, Freeport, Tex.	1981

Appointed by Board of Governors

Jerome L. Howard	Chairman of the Board and Chief Executive Officer, Mortgage & Trust, Inc., Houston, Tex.	1979
Gene M. Woodfin	Chairman of the Board and Chief Executive Officer, Marathon Manufacturing Company, Houston, Tex.	1980
Granville M. Sawyer	President, Texas Southern University, Houston, Tex.	1981

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank

Ben R. Low	President, National Bank of Commerce, San Antonio, Tex.	1979
John H. Garner	President and Chief Executive Officer, Corpus Christi National Bank, Corpus Christi, Tex.	1980
John H. Holcomb	Owner-Manager, Progreso Haciendas Company, Progreso, Tex.	1981
Charles E. Cheever, Jr.	President, Broadway National Bank, San Antonio, Tex.	1981

Appointed by Board of Governors

Pat Legan	Owner, Legan Properties, San Antonio, Tex.	1979
Vacant		1980
Carlos A. Zuniga	Partner, Zuniga Storage and Forwarding Company, Laredo, Tex.	1981

District 12—SAN FRANCISCO

		Term expires Dec. 31
Class A		
Frederick G. Larkin, Jr.	Chairman of the Executive Committee, Security Pacific National Bank, Los Angeles, Calif.	1979
Ole R. Mettler	President and Chairman, Farmers & Merchants Bank of Central California, Lodi, Calif.	1980
Robert A. Young	Chairman and President, Northwest National Bank, Vancouver, Wash.	1981
Class B		
Clair L. Peck, Jr.	Chairman of the Board, C. L. Peck Contractor, Los Angeles, Calif.	1979
J. R. Vaughan	Chairman and Chief Executive Officer, Knudsen Corporation, Los Angeles, Calif.	1980
Malcolm T. Stamper	President, The Boeing Company, Seattle, Wash.	1981
Class C		
Dorothy Wright Nelson	Dean and Professor of Law, University of Southern Calif. Law Center, Los Angeles, Calif.	1979
Cornell C. Maier	Chairman, President and Chief Executive Officer, Kaiser Aluminum & Chemical Corp., Oakland, Calif.	1980
Joseph F. Alibrandi	President and Chief Exec. Officer, Whittaker Corporation, Los Angeles, Calif.	1981

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank

Vacant		1979
Vacant		1979
James D. McMahon	President, Santa Clarita National Bank, Newhall, Calif.	1980
Harvey J. Mitchell	President, First National Bank of San Diego County, Escondido, Calif.	1981

Appointed by Board of Governors

		Term expires Dec. 31
Togo W. Tanaka	President, Gramercy Enterprises, Los Angeles, Calif.	1979
Caroline L. Ahmanson	Chairman of the Board, Caroline Leonetti, Ltd., Beverly Hills, Calif.	1980
Harvey A. Proctor	Chairman of the Board, Southern California Gas Company, Los Angeles, Calif.	1981

PORTLAND BRANCH

Appointed by Federal Reserve Bank

Merle G. Bryan	President, Forest Grove National Bank, Forest Grove, Ore.	1979
Kenneth Smith	General Manager, The Confederated Tribes of Warm Springs, Warm Springs, Ore.	1980
Jack W. Gustavel	President and Chief Executive Officer, First National Bank of North Idaho, Coeur d'Alene, Idaho	1981
Robert F. Wallace	Chairman of the Board, First National Bank of Oregon, Portland, Ore.	1981

Appointed by Board of Governors

Phillip W. Schneider	Northwest Regional Executive, National Wildlife Federation, Portland, Ore.	1979
Loran L. Stewart	Director, Bohemia, Inc., Eugene, Ore.	1980
Jean Mater	Partner and General Manager, Mater Engineering, Corvallis, Ore.	1981

SALT LAKE CITY BRANCH

Appointed by Federal Reserve Bank

Fred H. Stringham	President, Valley Bank and Trust Company, South Salt Lake, Utah	1979
Mary S. Knox	Chairman, Idaho State Bank, Glenns Ferry, Idaho	1980
Robert E. Bryans	Chairman of the Board and Chief Executive Officer, Walker Bank & Trust Company, Salt Lake City, Utah	1981
David P. Gardner	President, University of Utah, Salt Lake City, Utah	1981

Appointed by Board of Governors		*Term expires Dec. 31*
Robert A. Erkins	Geothermal Agri/Aquaculturist, White Arrow Ranch, Bliss, Idaho	1979
J. L. Terteling	President, The Terteling Company, Inc., Boise, Idaho	1980
Wendell J. Ashton	Publisher, Deseret News Publishing Company, Salt Lake City, Utah	1981

SEATTLE BRANCH

Appointed by Federal Reserve Bank		
Donald L. Mellish	Chairman of the Board, National Bank of Alaska, Anchorage, Alaska	1979
Rufus C. Smith	Chairman, The First National Bank of Enumclaw, Enumclaw, Wash.	1980
Douglas S. Gamble	President and Chief Executive Officer, Pacific Gamble Robinson Co., Seattle, Wash.	1981
C. M. Berry	President, Seattle-First National Bank, Seattle, Wash.	1981

Appointed by Board of Governors		
Merle D. Adlum	Vice President, Seafarer's International, Union of North America AFL-CIO, Seattle, Wash.	1979
Virginia L. Parks	Vice President for Finance and Business, Seattle University, Seattle, Wash.	1980
Lloyd E. Cooney	President and General Manager, KIRO Radio & Television, Seattle, Wash.	1981

PRESIDENTS AND VICE PRESIDENTS

December 31, 1979

Federal Reserve **Bank** or branch	President First Vice President	Vice Presidents	
Boston	Frank E. Morris	Daniel Aquilino[1]	R. W. Eisenmenger[1]
	James A. McIntosh	T. F. Hunt, Jr.[1]	Niels O. Larsen[1]
		Richard A. Walker[1]	T. E. Cimeno, Jr.
		F. K. Cummings	Norman S. Fieleke
		Luther M. Hoyle, Jr.	Kenneth H. Kulesza
		Stephen K. McNees	Alicia H. Munnell
		D. A. Pelletier	Richard E. Randall
		Laurence H. Stone	Walter T. Sullivan
		Richard F. Syron	Herbert F. Wass
New York	Temporarily vacant	Alan R. Holmes[2]	Peter Fousek[1]
	T. M. Timlen, Jr.	Donald B. Gray[1]	P. B. Henderson, Jr.[1]
		Scott E. Pardee[1]	Thomas C. Sloane[1]
		Peter D. Sternlight[1]	James O. Aston
		Peter Bakstansky	W. H. Braun, Jr.
		E. Gerald Corrigan	Suzanne Cutler
		Chester B. Feldberg	Henry S. Fujarski
		Margaret Greene	Whitney R. Irwin
		Edwin R. Powers	A. M. Puckett
		Geri M. Riegger	Irwin D. Sandberg
		F. C. Schadrack, Jr.	Robert C. Thoman
		Rudolf Thunberg	Richard Vollkommer
		H. W. Whiteman, Jr.	H. David Willey
Buffalo		John T. Keane	
Philadelphia	David P. Eastburn	K. G. Adack[1]	Edward G. Boehne[1]
	Richard L. Smoot	Thomas K. Desch	P. M. DiPlacido
		Guy H. Edwards	James F. Gaylord
		Hiliary H. Holloway	W. Lee Hoskins
		A. A. Kudelich	Donald J. McAneny
		G. William Metz	D. J. Mullineaux
		L. C. Murdoch, Jr.	W. H. Stone, Jr.
		Ronald D. Watson	
Cleveland	Willis J. Winn	John M. Davis, Jr.[1]	W. H. Hendricks[1]
	W. H. MacDonald	Donald C. Benjamin	George E. Booth, Jr.
		Harry W. Huning	R. Thomas King
		James H. Nash, Jr.	T. E. Orminston, Jr.
		Lester M. Selby	Harold J. Swart
		Donald G. Vincel	
Cincinnati		Charles A. Cerino	Robert E. Showalter[1]
Pittsburgh		Robert D. Duggan[1]	

For notes see last page of listing.

PRESIDENTS AND VICE PRESIDENTS—Continued

Federal Reserve **Bank** or branch	President First Vice President	Vice President	
Richmond	Robert P. Black George C. Rankin	Welford S. Farmer[1]	James Parthemos[1]
		John F. Rand[1]	R. E. Sanders, Jr.[1]
		Elizabeth W. Angle	L. W. Bostian, Jr.
		J. A. Broaddus, Jr.	George B. Evans
		Roy L. Fauber	William C. Glover
		R. B. Hollinger, Jr.	William D. Martin III
		R. D. McTeer, Jr.	A. V. Myers, Jr.
		C. D. Porter, Jr.	Aubrey N. Snellings
		Andrew L. Tilton	James F. Tucker
		Joseph F. Viverette	
Baltimore		W. E. Pascoe III	J. R. Monhollon[1]
		Gerald L. Wilson	
Charlotte		S. P. Fishburne[1]	Boyd Z. Eubanks
		Thomas E. Snider	
Culpeper[3]		John G. Stoides	A. D. Tinkelenberg
Atlanta	Monroe Kimbrel Robert P. Forrestal	George C. Guynn[1]	Billy H. Hargett[1]
		Arthur H. Kantner[1]	Brown R. Rawlings[1]
		Harry Brandt[1]	W. R. Caldwell
		William N. Cox III	W. M. Davis
		Delmar Harrison	Robert E. Heck
		William G. Pfaff	H. Terry Smith
		John M. Wallace	
Birmingham		Hiram J. Honea	
Jacksonville		Charles D. East	
Miami		F. J. Craven, Jr.	
Nashville		Jeffrey J. Wells	
New Orleans		Pierre M. Viguerie	
Chicago	Robert P. Mayo Daniel M. Doyle	Ward J. Larson[1]	James R. Morrison[1]
		Karl A. Scheld[1]	Harry S. Schultz[1]
		Carl E. Vander Wilt[1]	Richard P. Anstee
		Paul J. Bettini	George W. Cloos
		Franklin D. Dreyer	William H. Gram
		Daniel P. Kinsella	Joseph G. Kvasnicka
		William T. Newport	Dorothy M. Nichols
		Louis J. Purol	William Rooney
		R. M. Scheider	Roby L. Sloan
		Adolph J. Stojetz	Ruth F. Vilona
		Eugene J. Wagner	Allen G. Wolkey
Detroit		William C. Conrad[1]	F. S. Dominick
		Robert M. Fitzgerald	

For notes see last page of listing.

PRESIDENTS AND VICE PRESIDENTS—Continued

Federal Reserve **Bank** or branch	President First Vice President	Vice President	
St. Louis	Lawrence K. Roos	Anatol B. Balbach[1]	J. P. Garbarini[1]
	Donald W. Moriarty, Jr.	Bradley G. Glass[1]	F. G. Russell, Jr.[1]
		Harold E. Uthoff[1]	Ruth A. Bryant
		Melvin A. Carr	Carol B. Claypool
		James R. Kennedy	John F. Otting, Jr.
		Warren G. Snover	Robert W. Thomas
		Delmer Weisz	
Little Rock	....	John F. Breen	
Louisville	....	Donald L. Henry[1]	
Memphis	....	L. Terry Britt	
Minneapolis	Mark H. Willes	Melvin L. Burstein[1]	L. W. Fernelius[1]
	Thomas E. Gainor	J. A. MacDonald[1]	John P. Danforth
		Lester G. Gable	Gary P. Hanson
		Bruce J. Hedblom	D. R. Hellweg
		Howard L. Knous	David R. McDonald
		Clarence W. Nelson	James R. Taylor
		R. W. Worcester	
Helena	....	Betty J. Lindstrom	
Kansas City	Roger Guffey	W. T. Billington[1]	James R. Bowen[1]
	Henry R. Czerwinski	Thomas E. Davis[1]	J. D. Hamilton[1]
		James R. Bell	James A. Cacy
		Cecil B. Foley	Jay K. Mast
		G. H. Miller, Jr.	M. L. Mothersead
		James F. O'Meara	Barry K. Robinson
		Robert E. Scott	Jerry D. Shreeves
		Donald A. Slover	John F. Zoellner
Denver	....	Wayne W. Martin[1]	
Oklahoma City	....	William G. Evans	
Omaha	....	Robert D. Hamilton	
Dallas	Ernest T. Baughman	Joseph E. Burns[1]	G. C. Cochran III[1]
	Robert H. Boykin	Harry E. Robinson[1]	Tony J. Salvaggio[1]
		C. J. Pickering	George F. Rudy
		Neil B. Ryan	E. W. Vorlop, Jr.
El Paso	....	Joel L. Koonce, Jr.	
Houston	....	J. Z. Rowe	
San Antonio	....	Carl H. Moore	

For notes see last page of listing.

PRESIDENTS AND VICE PRESIDENTS—Continued

Federal Reserve **Bank** or branch	President First Vice President	Vice President	
San Francisco	John J. Balles	John J. Carson[1]	Kenneth A. Grant[1]
	John B. Williams	Michael W. Keran[1]	Donald V. Masten[1]
		Kent O. Sims[1]	Donald K. Carson
		James M. Davis	Robert C. Dietz
		H. Peter Franzel	George P. Galloway
		Harry W. Green	Warren H. Hutchins
		Henry B. Jamison	Hector M. Martin
		Rix Maurer, Jr.	Michael J. Murray
		Louis E. Reilly	Wilhelmine Von Turk
		Thomas Warren	
Los Angeles		Richard C. Dunn[1]	
Portland		Angelo S. Carella	
Salt Lake City		A. Grant Holman	
Seattle		Gerald R. Kelly[1]	

1. Senior Vice President.
2. Adviser.
3. Culpeper Center is not considered a branch.

CONFERENCE OF PRESIDENTS

The presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. At a meeting on September 20, 1978, Robert P. Black and Ernest T. Baughman, Presidents of the Federal Reserve Banks of Richmond and Dallas, were elected Chairman and Vice Chairman respectively for the forthcoming conference year, ending with the December 1979 meeting. Bradley H. Gunter of the Federal Reserve Bank of Richmond was appointed Secretary and Martha T. Sukovich of the Federal Reserve Bank of Dallas was appointed Assistant Secretary.

CONFERENCE OF FIRST VICE PRESIDENTS

The Conference of First Vice Presidents of the Federal Reserve Banks was organized in 1969 to meet from time to time, primarily for the consideration of operational matters. On September 29, 1978, George C. Rankin, First Vice President of the Federal Reserve Bank of Richmond, was elected Chairman, and Robert H. Boykin, First Vice President of the Federal Reserve Bank of Dallas, was elected Vice Chairman of the conference for the calendar year 1979.

Bradley H. Gunter and Martha T. Sukovich were appointed Secretary and Assistant Secretary respectively.

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